

# Herald Tribune

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PARIS, MONDAY, MAY 8, 1978

Established 1887

THE WEATHER - PARIS: Mostly overcast, calm. Temp. 15-17 (59-63). Tuesday, variable. LONDON: Mostly sunny. Temp. 14-18 (57-64). Tuesday, similar. CHANNEL: Mostly overcast. Temp. 14-18 (57-64). Tuesday, similar. NEW YORK: Mostly cloudy. Temp. 15-18 (59-64). Tuesday, similar.

ADDITIONAL WEATHER - PAGE 2

Austria	12.5	Kyoto	54.7
Belgium	12.5	Ljubljana	52.25
Denmark	12.5	Luxembourg	20.15
France	12.5	Madrid	13.05
Germany	12.5	Nairobi	70.15
Greece	12.5	Osaka	54.7
Italy	12.5	Paris	54.7
Japan	12.5	Prague	40.15
South Korea	12.5	Stockholm	27.55
Taiwan	12.5	Switzerland	17.05
U.S.A.	12.5	Turkey	54.7
U.S.S.R.	12.5	U.S. Military (E)	30.35
Yugoslavia	12.5		20.15

## Moro Reported Resigned to Die In Letter to Wife

ROME, May 7 (UPI)—Former Premier Aldo Moro, apparently resigned to his death, has written a farewell letter to his wife and their children, it was disclosed today. Meanwhile, the police said that they arrested three more suspects in their search for Mr. Moro.

State radio, television and newspapers reported that Mr. Moro's Red Brigades kidnappers allowed him to write a final note before their ambiguous announcement late last week that "we are concluding the battle begun March 16 by executing the sentence passed on Aldo Moro."

Earlier in Mr. Moro's 52 days of

captivity his captors said that he would be put to death unless 13 of their jailed terrorist comrades were released.

The Milan newspaper Corriere Della Sera reported that friends of Mr. Moro's family, who saw his farewell message described it as "heartbreaking." Rome's conservative Il Tempo said it began: "Dear Norina [his affectionate name for his wife, Eleonora]. They have told me they are going to kill me shortly. I kiss you for the last time. Kiss the children."

### Flat Rejection

Il Tempo said that another phrase in the brief, handwritten note said: "If the government had wanted to, it could have," a reference to the flat rejection of the terrorists' demands.

It said that the farewell letter, unlike earlier bitter messages begging or demanding that he be saved, no longer mentioned an exchange, as if he were resigned to his fate.

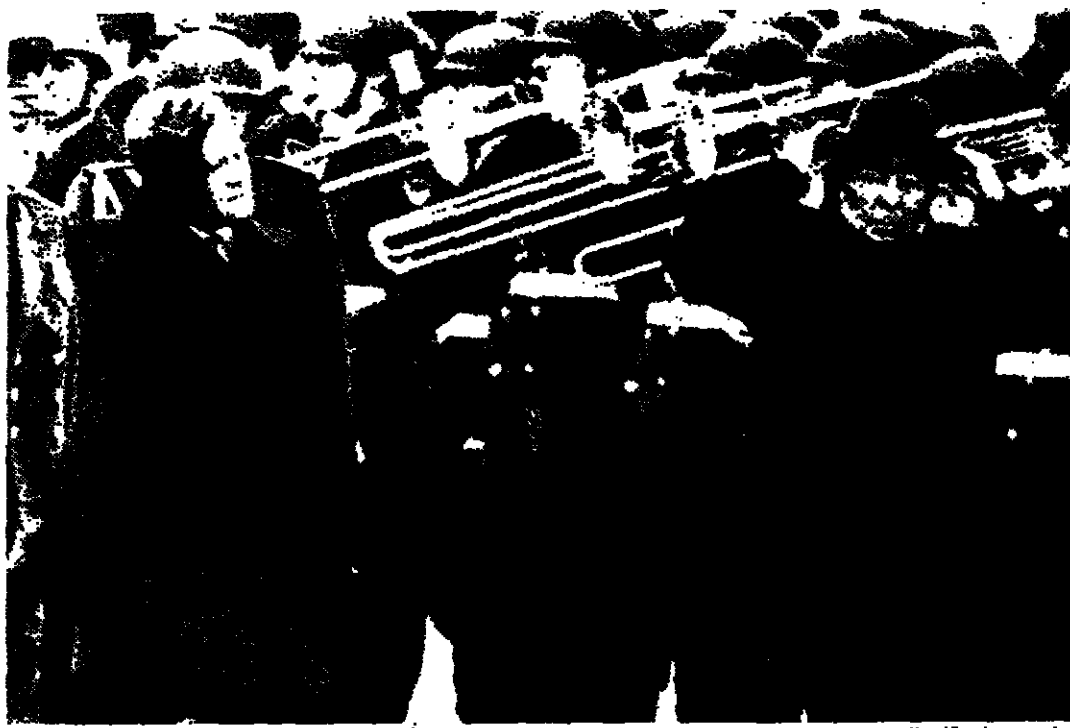
It said that Mr. Moro's 28-year-old daughter, Anna, a doctor, picked up the letter in a public telephone booth and brought it to her mother.

The leftist Rome newspaper La Repubblica said that the Moro letter, received just before the kidnappers' announcement that they were killing their victim, caused Mrs. Moro to telephone Italian President Giovanni Leone, vainly entreating him to release one of the 13 prisoners.

The three new arrests in the continuing hunt for Mr. Moro by 50,000 police and troops took place today after hundreds of law officers raided homes in the north of Rome and outlying areas.

The woman and two men seized today joined 23 persons arrested yesterday in a wide sweep in central Italy in prison awaiting interrogation by an examining magistrate.

Police said that those arrested (Continued on Page 2, Col. 4)



Leonid Brezhnev hangs onto his hat in wind at Hamburg airport during the ceremony before the Soviet leader's return to Moscow yesterday. West German Chancellor Helmut Schmidt is at left.

## Byrd Reports Legislative Compromise

### Accord Seen on Mideast Planes

By Bill Drummond

WASHINGTON, May 7 (AP)—Senate Majority Leader Robert Byrd said yesterday that the outline of a compromise had been worked out with the Carter administration to smooth passage through the Senate of the controversial sale of jet fighter planes to Israel, Saudi Arabia and Egypt.

The West Virginia Democrat said that the tentative compromise would:

• Require that the new F-15s for Saudi Arabia be outfitted only for defensive operations.

• Place restrictions on where the Saudis could base the planes.

• Provide for an expansion of the U.S. commitment to Israel after 1984, when the warplane transactions would be completed. Sen.

Byrd would not comment on what the new commitments might be.

The first two elements deal with concerns critical to Israel. Although Saudi Arabia has declared that it wants the F-15s for defensive purposes only, the Israelis fear that the advanced interceptors might be used against them. They want to insure that the planes are not located at the Saudi base at Tabuk, which they consider uncomfortably close to their border.

### Key Element

The apparent key element of the tentative compromise is the provision that the administration make what Sen. Byrd called "a commitment of strong support" in military supplies to Israel after 1984.

Sen. Byrd said at his weekly press conference that he had received indications from the State Department that the compromise was acceptable.

Official Israeli sources in Washington immediately expressed opposition. "We were not consulted about any possibility of compromise. Israel's policy remains unchanged. We would like to see that the commitments made to Israel are fulfilled," an Israeli source said. "On the other hand, we believe the sale of American warplanes to Arab countries constitutes a threat to the security of Israel and we would like to see the decision reversed."

Sen. Byrd said he had talked yesterday with Sen. John Sparkman, D-Ala., chairman of the Senate Foreign Relations Committee, and asked him to delay action on the jet-sale proposal until Tuesday, when a group of senators is to hold a breakfast meeting with Secretary of State Cyrus Vance.

Under the law, rejection of the sales would require a majority vote on a disapproval motion by both the House of Representatives and the Senate before a May 22 deadline.

"I would hope there would be no disapproval resolution, but in the event the Senate is requested to vote on the issue, I would hope and believe that any disapproval motion would be rejected," he said.

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According to press reports, the aircraft destined for the Saudis would lack bomb racks and would carry computer-directed radar that is programmed only to spot air-

borne targets. This presumably would limit the F-15 to defensive operations.

The 50 F-5E aircraft designated for Egypt are considered no match for Israeli warplanes and have not aroused the same opposition as the aircraft for the Saudis.

Sen. Byrd said that Saudi Arabia had shown continuing friendship toward the United States, moderation in the Middle East and general support for the U.S. position in international economic affairs. "To reject this sale would be to drive the Saudis to purchase their aircraft elsewhere," he said.

— Los Angeles Times

## Turkish Lira Follows Fall of U.S. Dollar

ANKARA, May 7 (AP)—Turkey readjusted its currency against nine European currencies and the Canadian dollar today.

According to a Central Bank announcement, the Turkish lira followed the fall of the U.S. dollar, losing value against European currencies. Under the new parities, a Deutsche mark is equal to 11.73 Turkish liras as opposed to the previous 11.50; the Swiss franc is equal to 12.56 liras, up from 12.20, and the French franc is 5.30 Turkish liras, up from 5.05. The lira gained against the Canadian dollar.

## For White House Appointment

### Even Harriman Becomes Probe Subject

By Sally Quinn

WASHINGTON, May 7 (WP)—It was not the idea of the security check that anybody minded. Such things are commonplace in Washington.

But what set his neighbors in Georgetown buzzing this week was the target of State Department's latest job security inquiry — Averell Harriman, former under secretary of state, former ambassador to the Soviet Union, former ambassador to the Court of St. James's, former secretary of commerce, former ambassador-at-large.

"How could they send someone around asking if Averell had a drinking problem... or whether he had a happy marriage?" exclaimed one of Mr. Harriman's Georgetown neighbors.

Columnist Art Buchwald, who was among those contacted by State Department security officer Henry Bishop, commented: "What are you supposed to say? Ah yes, I believe he knew Stalin well."

Mr. Bishop insisted that he was



Averell Harriman

not at liberty to explain why he was checking on the distinguished 86-year-old statesman.

"Deep, deep, deep background,"

insisted another State Department source, this one unidentified. "Harriman has been proposed for the U.S. delegation to the UN Special Session on Disarmament. Andy Young will be chairman. The problem with the publicity is that Harriman hasn't been approved by the White House yet."

"I do think it's quite funny, actually," said Mr. Harriman's wife, Pamela. "But it is sort of silly for something that only lasts five weeks. And what do they do if somebody says, 'Yes, he's sloshed every night.'"

"The only thing that bothers me," she says, "is that this guy has been working on this case for two weeks, wasting taxpayers' money."

"You must understand," says the unnamed source at the State Department, "this will be a presidential appointment. And anyone who is up for one of those would have to go through a security check."

"Even Jerry Ford."

## After Bonn Meetings

# Brezhnev, Schmidt Sign 25-Year Pact

By John Vinocur

BONN, May 7 (NYT)—Soviet leader Leonid Brezhnev and Chancellor Helmut Schmidt linked the Soviet Union and West Germany yesterday in a 25-year economic cooperation agreement.

Mr. Schmidt described the agreement, despite missivings of West German industrial leaders, as a historic event marking great progress in East-West relations.

The agreement, signed here by the two leaders on the third day of a four-day visit by Mr. Brezhnev, provides a framework for the development of commerce, industry and technology in an initial 10-year phase, renewable for three five-year periods.

Mr. Brezhnev and Mr. Schmidt also called, in a declaration, for disarmament measures. The Soviet Communist party leader and head of state said in a televised speech to the West German people that the issue of arms control was urgent and that "every day lost, every delay, can cost mankind — all of us — dearly."

### Informal Talks

[Mr. Brezhnev flew to Moscow today from Hamburg, where the Soviet leader had been a guest at Mr. Schmidt's home since the signing ceremony yesterday. The ceremonial send-off at the Hamburg airport was preceded by informal talks and a luncheon at the Chancellor's home that was also attended by Foreign Minister Hans-Dietrich Genscher, Defense Minister Hans Apel and Economics Minister Otto Lambrecht.]

[In a communique released today after Mr. Brezhnev's 1:30 p.m. departure, Mr. Brezhnev and Mr. Schmidt said they considered it extremely important that the U.S.-Soviet talks on the limitation of strategic arms be successful. They also said they expected the special SALT disarmament conference later this month to promote progress in disarmament negotiations, according to wire dispatches.]

Mr. Schmidt's enthusiasm for the economic agreement, conveyed by his press spokesman, contrasted sharply with comments in West German newspapers and by industrial leaders. They suggested that the accord was a vague bit of cosmetics meant to prop up a visit that Mr. Brezhnev was using, they

said, as a means to enhance his image as a "man of peace."

The Chancellor's press spokesman, Klaus Bolling, said Mr. Schmidt saw the agreement not only as an economic document but also as a "political act without parallel in the recent history of the world."

The agreement and the declaration, according to Mr. Bolling's account of the Chancellor's thinking, "would have been unthinkable 10 years ago."

The economic agreement calls for joint development of industrial plants, industrial products and equipment, development of natural resources, including seabed mining projects, and cooperation in the production of energy, banking,

insurance, transportation and service industry projects and in the building of machines, steel, automobiles, and chemical products.

At the same time, the agreement included a statement that "efforts will be made to continue granting credit under the most favorable conditions" and that barrier arrangements would be continued where necessary.

What went against the basic attitude of West German industry and banking, which feels that the Russians have counted far too much on West German loans and could not indefinitely continue to offer products such as sheep or plum jelly

(Continued on Page 2, Col. 7)

## On U.S. Transport Issue

# Russia Said to Ease Objection to Missile

By George C. Wilson

WASHINGTON, May 7 (WP)—The Soviet Union has withdrawn its "categorical" objection to the United States putting Cruise missiles into wide-bodied civilian transports like the Boeing 747, administration officials said yesterday.

Pentagon strategists from Defense Secretary Harold Brown down have been pushing hard for a new mother plane to insure that Cruise missiles could overwhelm any future Soviet defense by giving it too much to handle.

A wide-bodied transport could carry 40 to 80 Cruise missiles. Existing B-52 bombers will carry about 20.

The Soviet Union during recent arms negotiations in Geneva backed off its flat-out opposition to wide-bodied jets performing as Cruise missile carriers but pressed for several limiting conditions, officials said.

### Soviet Condition

One condition sought by the Soviet Union, but still at issue, is building the wide-bodied jet from the ground up as a missile carrier

rather than converting existing passenger planes to that role.

Soviet negotiators, sources said, contend they must be able to tell a missile carrier from a passenger plane at a glance — presumably by satellite.

A Boeing 747, McDonnell Douglas DC-10 or other passenger jet selected for the role would have to have clearly distinguishable doors and other characteristics identifying its mission to satisfy the Soviet Union.

This would cost the United States considerably more money than converting existing airliners. U.S. strategists believe the extra cost would pay off in terms of keeping the offense ahead of the defense.

### One Vehicle

U.S. negotiators at the Strategic Arms Limitation Talks in Geneva are arguing that a wide-bodied plane full of Cruise missiles should count as one vehicle under the agreed upon limit of 1,320 missiles and bombers carrying more than one nuclear warhead.

Under that rationale, the United States could deploy 1,200 multiple-warhead, land and submarine missiles plus 120 Cruise missile carriers.

If all the 120 carriers eventually became wide-bodied transports carrying 70 Cruise missiles each, Soviet defenses would have to confront 8,400 warheads — an unenviable task.

On the more comforting side, backers of the plan argue, a Cruise missile flies so much more slowly to its target than a ballistic missile that the Soviet Union would not have to worry about a surprise Cruise attack knocking out land-based missiles.

The Cruise force, while overwhelming in numbers, would be clearly for retaliation and thus discourage the Soviet Union from (Continued on Page 2, Col. 6)

## Kennedy

### Tops Carter In U.S. Poll

WASHINGTON, May 7 (UPI)—Sen. Edward Kennedy, D-Mass., rather than President Carter, is the first choice among Democrats to be their party's 1980 presidential nominee, according to a Gallup poll reported in The Washington Post today.

When asked to select their first choice from among six prominent Democrats, 36 per cent of those polled chose Sen. Kennedy while 29 per cent picked Mr. Carter. When facing Mr. Carter alone, Sen. Kennedy held a 53-to-40-per cent lead.

California Gov. Edmund Brown Jr. was the third choice with 12 per cent of the vote, followed by Vice-President Mondale with 8 per cent. Sen. Henry Jackson of Washington with 5 per cent, and Rep. Morris Udall of Arizona with 3 per cent.

Only once in the 43-year history of the Gallup Poll has an incumbent president eligible for re-election been defeated in a survey. That was in September, 1967, when Sen. Kennedy's brother, Robert, was the choice of 51 per cent of Democrats for the 1968 nomination while 39 per cent preferred President Lyndon B. Johnson.

## Called Not Justified Until 1981

# Saudis Said to Urge Oil Price Freeze

TAIF, Saudi Arabia, May 7 (Reuters)—Saudi Arabia has suggested a freeze in oil prices for the next three or four years, according to sources at a meeting of the Organization of Petroleum Exporting Countries.

The sources said that the Saudis told their OPEC partners that market conditions would not justify an oil price rise now, but might do so in 1981 or 1982.

Saudi Oil Minister Sheikh Ahmed Zaki Yamani, host at two days of informal talks here among the 13 OPEC members, told the ministers that the current surplus in the world oil market was expected to persist until 1981 or 1982, the sources reported.

They quoted him as saying that no price increases were conceivable before then.

The sources said that Sheikh Yamani gave a lengthy exposition of the reasons for Saudi Arabia's support of the U.S. dollar as the basic currency for setting the price of oil. He was quoted as saying that he believed the dollar was already on the road to recovery.

Many ministers at the Taif con-

ference, which started yesterday, were concerned about the erosion of the purchasing power of their oil revenues because of the dollar's recent decline.

The sources said that Sheikh Yamani argued that there was no suitable alternative to the dollar for oil pricing. His arguments were said to have been supported by Iran's OPEC delegate, Mohammed Yaganeh.

### Harmful to OPEC

The sources said that the Saudi position was strongly attacked by states that want an oil price increase decided at OPEC's next regular ministerial conference in Geneva on June 17-18.

Iraq was named as one of the

main critics arguing that the Saudi stand was harmful to the unity of OPEC and could render it powerless.

The sources quoted a minister as telling colleagues that the Taif conference was a waste of time and adding that he would probably boycott the June meeting in Geneva because no action was likely to be taken there.

Iraqi Oil Minister Tayeb Abdul-Karim stayed away from last December's OPEC conference in Caracas, apparently to protest an advance agreement by some members to keep prices frozen.

The Caracas conference ended with no decision on prices — effectively holding them at levels set in December, 1976.

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According to press reports, the aircraft destined for the Saudis would lack bomb racks and would carry computer-directed radar that is programmed only to spot air-

borne targets. This presumably would limit the F-15 to defensive operations.

The 50 F-5E aircraft designated for Egypt are considered no match for Israeli warplanes and have not aroused the same opposition as the aircraft for the Saudis.

Sen. Byrd said that Saudi Arabia had shown continuing friendship toward the United States, moderation in the Middle East and general support for the U.S. position in international economic affairs. "To reject this sale would be to drive the Saudis to purchase their aircraft elsewhere," he said.

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## Warning of African Involvement

## Carter Cites Notes to Brezhnev

From Wire Dispatches  
SPOKANE, Wash., May 7—President Carter has reported that he sent several private warnings to Leonid Brezhnev, the Soviet leader, about Soviet and Cuban military involvement in Africa.

He told citizens at a meeting here Friday that his messages said in effect, "Be careful how you use your military strength in Africa if you want to be a friend of the United States and maintain peace."

Mr. Carter said the Soviet Union's main effort in Africa had been the sale of arms, while the United States gave the continent economic aid, friendship and a commitment to human rights.

Mr. Carter also said that he believed that the United States continued to hold the edge over the Soviet Union in Africa. He attributed this, in part, to "an innate racism that exists in the Soviet Union toward black people."

The President praised the Soviet Union, however, for negotiating "in good faith" on the limitation of strategic arms.

## Carter Statements Seen as Forceful

By Graham Hovey

WASHINGTON, May 7 (NYT)—High-ranking government officials yesterday characterized President Carter's warning to the Soviet Union and Cuba about military intervention in Africa and his charge against the Russians of "innate racism" toward blacks as his most forceful statements to date on the issue.

"I'm not surprised that he made it because he keeps letting us know of his deep concern," said an African specialist, referring to Mr. Carter's extensive response to a question Friday in Spokane.

The President said he had used the "strongest possible terms" to warn Moscow and Havana that their African interventions would jeopardize relations with the United States and damage East-West

## A Correction

The story in the weekend editions of the International Herald Tribune on President Leonid Brezhnev's meeting with Chancellor Helmut Schmidt in Bonn inadvertently stated that the Russians had no intention of bringing the neutron-weapon issue into a current disarmament meeting. It should have said that the Soviet Union has no intention of bringing the weapon into any current forum, but will instead focus on it at the UN disarmament meeting in New York later this month.

detente. He had sent "private, sealed messages" to the Mr. Brezhnev to this effect, Mr. Carter said.

Some administration officials said they were surprised that Mr. Carter had spoken publicly about a subject long discussed privately in diplomatic circles: the allegations of racist behavior by the Russians in their dealings with black Africans, both in Africa and in the Soviet Union.

## 'Article of Belief'

"It is one of those articles of belief for a lot of us who have watched the Soviets operate in Africa," said one official, "but as far as I can remember this is the first time any high-ranking official of any government has talked about it openly."

Diplomats have often cited racial prejudice as a factor in Soviet setbacks in Africa and there have been instances of public protest by black African students about alleged discrimination in the Soviet Union and other Eastern European countries under Communist rule since the early 1960s.

One U.S. official said, however, that he was not certain black Africans would react favorably to Mr. Carter's charge of racism. "The Africans can still see all the blemishes in our open American society," he said. "They may say, 'You still have too many moles in your own eye for the President to be talking like that.'"

The President's warning that Soviet behavior in Africa would inevitably affect progress toward detente and over Soviet-U.S. relations again pointed up a continuing

## Laker On Way To L.A. Service

LONDON, May 7 (IHT)—Fredrick Laker has crossed the first hurdle in his attempt to expand his Skytrain service to Los Angeles.

Britain's Civil Aviation Authority approved Laker Airways' application to operate a no-frills, walk-on service, identical to the New York operation, on the London to Los Angeles route. The Laker plans now must be approved by the Department of Trade and by U.S. aviation officials.

A one-way flight from London's Gatwick Airport to Los Angeles would cost \$84 from Oct. 1 to June 30, and \$96 from July 1 to Sept. 30. The flight from Los Angeles to London would cost \$220 from Sept. 1 to May 31, and \$248 from June 1 to Aug. 31.

debate within the administration on the so-called "linkage" of international issues.

Mr. Carter said that Secretary of State Cyrus Vance, in Moscow last month, had repeated the President's warning to Soviet leaders about the effect of African interventions on Soviet-U.S. friendship.

Mr. Vance has said emphatically, however, that Soviet actions in Africa should not be allowed to hamper progress toward a new treaty to curb the nuclear weapons race—the so-called SALT-2 agreement.

While agreeing with Mr. Vance that there should be no direct linkage of Africa with arms control, Zbigniew Brzezinski, the President's adviser on national security, has often said that Soviet behavior in Africa could not fail to affect progress on other outstanding issues.

Several officials remarked yesterday that Mr. Carter's language and emphasis in Spokane appeared to be more in line with Mr. Brzezinski's attitude than with that of Mr. Vance.

Officials said they believed Mr. Carter's reference in Spokane to a strong religious commitment in black Africa as a defense against Soviet penetration and a factor favorable to the United States derived in part from his visit last month to Nigeria and Liberia. Both Lt. Gen. Olusegun Obasanjo, Nigeria's head of state, and President William Tolbert Jr. of Liberia are devout practitioners of Mr. Carter's Baptist faith, the officials pointed out. Mr. Tolbert, in 1965 became the first black to become president of the Baptist World Alliance.

## Tass Disputes President

MOSCOW, May 7 (AP)—Tass yesterday lashed back against President Carter's statement that an "innate racism" against blacks exists in the Soviet Union.

The official Soviet news agency said it found it "at least strange" that Mr. Carter had compared Soviet "racism" with conditions in the United States, where Mr. Carter declared that "we know how to live with white and black people together."

"Of course, J. Carter 'forgot' that equality and respect of one people for another have long ago been secured in the Soviet Union," the Tass report said.

In contrast, it said, such equality and mutual respect "until now has remained an unobtainable dream in the United States for Indians, Negroes, Puerto Ricans, Chicanos and other representatives of national minorities, who are the victims of discrimination in all fields and merciless exploitation."



Mrs. Eleonora Moro leaves church after mass for husband.

## Moro Reported to Write Farewell Letter to Wife

(Continued from Page 1)

were on a list of persons sought as sympathizers with the Red Brigades.

Politicians, relatives and police are pinning hopes that Mr. Moro may still be alive on the terrorists' use of the gerund "by executing."

## Trial Reset For Accused Snake Biter

MORGANTON, N.C., May 7 (AP)—Naomi Anderson showed up in district court with her pet boa constrictor, Daniel, in a blue pillowcase, but the man accused of biting off the tip of Daniel's tail failed to appear.

Judge Bill Martin ordered 18-year-old Kenneth Spurling arrested and rescheduled his trial for May 19. Mr. Spurling is accused of biting one-half inch off the tail of Daniel, a 48-inch snake.

According to Miss Anderson, she and Daniel were with a friend in a car by Lake James on April 22 when Mr. Spurling walked up, began petting the snake and asked if it would hurt him. He then picked up the snake and took a bite of its tail, she said. She added that she wants to recover the \$25 it cost to have Daniel's tail sewed up.

just stopping short of saying they had already killed the former premier.

The government of Christian Democratic Premier Giulio Andreotti, backed by the Communists, has repeatedly refused to deal with the kidnappers to save the leader of the Christian Democratic Party. It turned down a bid by Socialist leader Bettino Craxi to release prison sentences or mat treatment in Italy's maximum security jails milder if Mr. Moro were released.

But both Communists and the right-of-center Republicans showed displeasure this weekend with a government agreement to allow Amnesty International, a British-based organization concerned with political prisoners, to inspect Italy's jails.

The Communist newspaper L'Unita said: "This move is strange and unprovoked whether connected with prison conditions or whether it is a move to stay the assassin's hand." The Red Brigades have said that one of their aims is to destroy all Italy's jails and jails, described as "concentration camps."

## Tax Issue In Senate

(Continued from Page 1)

Massachusetts Democrat, found him to be "committed" to the Library of Congress study.

But even if a floor fight is avoided, the bill still faces problems of timing.

The three-month fight over the Panama Canal treaties this year, and the yearlong fight over the energy bill last year delayed action on a wide variety of legislation and forced the Senate to avoid almost all issues that could be termed controversial.

For this reason, any lengthy debate over the tax measure could doom it for the session. It also made virtually impossible any attempt to separate the deferral of the 1976 Tax Act provisions from the Ribicoff proposal.

Strongly Committed

Mr. Kraft and other chamber members found that most of the senators they met with were strongly committed to getting the entire Finance Committee bill passed. In fact, Mr. Kraft said that "every indication I have had during the course of my meetings with members of Congress this week, leads me to believe that it would be the Ribicoff bill—possibly with some modifications but with the basic format intact."

But even if the bill gets through the Senate, it must still go to a conference with the House, with the version agreed to by the conferees going back for approval by each house. House Ways and Means Committee Chairman Al Ullman, D-Ore., apparently has dropped his insistence that the House originate its own measure. He has indicated that he would not strip the Ribicoff proposals from the bill but would instead make certain adjustments and modifications and mark the bill up.

However, during this process, the measure could be sidetracked by the unresolved controversy over the sale of military aircraft to Israel, Egypt and Saudi Arabia, or by the energy bill, which is still in conference.

Mr. Kraft, a tax attorney based in Zurich, said that unless some type of bill is enacted very quickly, a course that appears unlikely, many Americans overseas, who must start working on their tax returns within the next week or so to make the June 15 deadline, will be uncertain as to which version of the law they should be filing under.

In talks with Treasury and Internal Revenue Service officials he found that, unlike last year, a blanket extension to July 15 would not be granted. In addition, it was uncertain how the IRS would treat individual requests for an extension. An IRS official advised Americans abroad who are doing their returns now to "file on the basis of the law as it exists" meaning under the provisions of the 1976 Tax Reform Act. If the law is then changed, taxpayers will have to file amended returns to claim their refunds.

## Gamassy Says Deal Concluded

## Egypt Is Buying Many U.S. Transports

CAIRO, May 7 (AP)—War Minister Mohammed Abdel Ghany Gamassy said yesterday that Egypt has concluded a deal with the United States to purchase a large number of C-130 transport aircraft and plans to replace some of its aging Soviet MiG-21s with the 50 U.S. F-15 fighters.

Gen. Gamassy said, however, that French-supplied Mirage fighter-bombers will remain the backbone of the Egyptian Air Force.

He made the comments during a visit to technical sections of an unidentified air base, where he attended an exercise on overhauling an engine of the French-made jet in a record time, the Middle East News Agency said.

The war minister praised Western aircraft, saying that they were more sophisticated, better equipped and have better facilities than Soviet planes.

## Double the Capacity

He said that the C-130 has double the capacity of the Soviet-made Antonov transport plane.

His statements were made as the U.S. Congress was discussing a controversial proposal to sell 60 F-15s to Saudi Arabia, 50 F-15s to Egypt and 15 F-15s and 75 F-16s to Israel.

Egyptian President Anwar Sadat has described the F-15 as a 10th-rate plane, but viewed the proposed deal as significant because it could mark the start of U.S. military aid to Egypt.

The type of the French planes was not mentioned, but Egypt is known to have 45 to 55 Mirage-3s and is expected to get 50 more.

Gen. Gamassy said that Egypt would get the planes either through

direct purchase from France or by manufacturing them in Egypt.

Egypt reportedly has been negotiating with French companies to build Mirages and Alpha Jets, a variety of missiles and modern electronic military equipment.

A protocol was recently signed regulating cooperation between

France and the Arab Organization for Industrialization, which includes Egypt, Saudi Arabia, Qatar and the United Arab Emirates.

Western military analysts still consider the MiG-21 and MiG-23 jets as the backbone of the Egyptian Air Force although Egypt is having difficulties finding spare parts to keep its MiG fleet flying.

## Brezhnev, Schmidt Sign 25-Year Economic Pact

(Continued from Page 1)

against West German machinery and steel pipe.

Otto Wolff von Amerongen, head of West Germany's industry and trade associations, discounted the importance of the agreement.

In an interview with a French television network, he said: "It is not an historic accord. It gives German industrialists the chance to plan better and the possibility to accelerate exchanges, but they are problematical between countries with such different economic systems."

The Frankfurt Allgemeine Zeitung, one of the country's most influential newspapers, stressed hollowness of the results of the conversations in a front-page editorial. Against the historical claims, it spoke of "prosaic reality."

"Four weeks ago," the editorial said, "no one even had the idea of a long-term economic accord that, having been rapidly stitched together, is now being portrayed as a miracle."

On the questions of disarmament and better relations, West German government sources avoided any talk of advances in describing the conversations.

They said Mr. Brezhnev showed no readiness to discuss possible negotiations concerning the controversial neutron bomb. They also reported that the Soviet leader, who in large measure read from prepared notes during his conversations with Mr. Schmidt, made no effort to discuss or exploit the recent differences between West Germany and the United States.

Mr. Brezhnev described the conversations with Mr. Schmidt as "necessary, substantive and useful," and the Chancellor characterized the conversations as valuable for detente in Europe and the world.

The overall impression of the talks, however, was that little was accomplished in any concrete way and that Mr. Brezhnev, who denounced the neutron bomb, was intent on projecting an image of the Soviet Union as a force in favor of arms control before the United Nations special session on disarmament later this month.

The joint declaration said: "Both sides regard it as important that no one should seek military superiority. They proceed from the assumption that approximate equality and parity suffice to insure defense. In their opinion, appropriate measures of disarmament and

arms limitation in the nuclear and conventional fields in accordance with this basic principle would be of great significance.

On the matter of West Berlin, where the West Germans regard as a weather-vane of good or bad East-West relations, the two sides endorsed the Four Power control of the city stemming from the Allied victory in World War II and said it should "be strictly adhered to and fully implemented."

## Boy Scouts Cut Age Limit on Handicapped

NORTH BRUNSWICK, N.J., May 7 (AP)—A 23-year-old man will become an Eagle Scout as a result of a Boy Scouts of America decision to eliminate age requirements for the handicapped.

An Eagle Scout pin—that of the highest scout rank—will be forwarded immediately to local scout officials for Gregory Wittine, 23, of Baldwin, N.Y., said Harvey Price, the chief scout executive.

Mr. Wittine is a cerebral palsy victim who qualified for Eagle Scout in part by completing a 10-mile hike on his hands and knees. His case helped raise a public outcry over Boy Scout policy toward the handicapped.

Effective last Friday, physically handicapped Boy Scouts can be enrolled past their 18th birthdays. Cub Scouts may be enrolled after their 11th birthdays and Explorers may remain in posts beyond their 21st birthdays. There will be no upper limit on age.

The 1.2 million scouts in the Boy Scouts of America include more than 60,000 physically or mentally handicapped persons.

## Egyptian Cabinet Shuffled

CAIRO, May 7 (UPI)—The architect of Egypt's economic policy, Abdel Kassisou, was dropped from Prime Minister Mamdouh Salem's Cabinet in a limited shuffle announced today.

Other key posts did not change, hands but five ministers joined the new lineup for the first time and five others were assigned different portfolios.

By injecting new blood into the administration, Mr. Salem said it will be better qualified to attempt a "basic reform of the Egyptian economy" and "grapple with the people's everyday problems."

Gen. Mohammed Mohammed Abdel-Ghany Gamassy remained as vice-premier and war minister. Mohammed Ibrahim Kamel as foreign minister and Maj. Gen. Nibawi Ismail as interior minister.

The shake-up was ordered by President Anwar Sadat last Tuesday after the Cabinet came under strong criticism in the local press which castigated it for a "lack of team spirit" and compared its members to "various horses pulling a cart in opposite directions."

Mr. Kassisou, vice-premier for economic affairs, resigned three weeks ago and went to the United States for medical treatment. His stringent economic policies were becoming increasingly unpopular even inside the Cabinet itself.

He reportedly favored a wage freeze, as part of a drive to combat inflation, but was overruled by Mr. Salem, who feared this would add to the discontent.

The shuffle was the second in seven months and the fifth since Mr. Salem, a 60-year-old former police officer, formed his first Cabinet in April, 1975.

The new lineup does not include the post of vice-premier for economic affairs, but Abdel Razik Abdel Meguid, a top UN official, was appointed as economic planning minister, a post which Mr. Kassisou previously held as well.

"We hope that we will be able soon to move from the phase of introducing basic solutions to the phase of abundance and affluence," Mr. Salem said.

Mr. Salem outlined two other tasks facing the Cabinet: "Working under President Sadat's leadership to liberate Israel-occupied territory and realize a peace settlement based on justice" and "safeguarding the sound exercise of democracy."

In Tuesday's speech, Mr. Sadat said he wanted "dynamic, not passive ministers," capable of confronting parliamentary and press criticism. The new ministers included: Abdel Razik Abdel Meguid, minister of economic planning; Ahmed Mamdouh Attaya, minister of justice; Mahmoud Mohammed Dawoud, minister of agriculture; Ahmed Tahat Tewfik, minister of housing; and Nassef Tahoun, minister of supply.

## Carter Relates Sadat Switch

SPOKANE, Wash., May 7 (NYT)—President Carter told a citizens' meeting here that progress made toward peace in the Middle East since his first meeting with President Anwar Sadat of Egypt.

He said Friday that he had told Mr. Sadat that "I want you first of all to recognize that Israel has a right to exist" and that he wanted the Egyptians to negotiate directly with the Israelis.

The President said that Mr. Sadat had replied, "Mr. President, that will never happen in my lifetime." Mr. Carter noted, however, that the prophecy had been dispelled by Mr. Sadat's historic visit to Jerusalem.

## Kyprianou Sees Bluff by Turkey

Athens, May 7 (AP)—Cyprus President Spyros Kyprianou said recent claims by Turkey that it would draw closer to the Soviet Union were an obvious bluff designed to deceive the U.S. Congress into lifting its arms embargo.

He said in an interview published here yesterday that Turkey needed the West 100 per cent and that it was the United States which could still decisively contribute to solving the Cyprus crisis.

"America can still do a lot," Mr. Kyprianou told the English language Athens Daily Post, adding, "The question of the embargo is very important in this context because if it is lifted then the potential of the United States to play a decisive role is reduced."

## Funeral Trick Foiled in Egypt

CAIRO, May 7 (AP)—A baker was arrested for holding a phony funeral in order to smuggle sacks of flour into his shop in Maghagha, north of Cairo, the newspaper Al Akhbar reported yesterday.

The man put three sacks of flour in a coffin and arranged a funeral procession through town with women screaming in grief behind the coffin, the newspaper reported. Police discovered the trick and stopped the procession.

Flour is strictly rationed in Egypt and is not easy to find in large quantities.

## WEATHER

ALGAEVE	15 41	cloudy	MADRID	15 41	overcast
AMSTERDAM	13 25	cloudy	MILAN	15 41	cloudy
ANTWERP	13 25	cloudy	MONTREAL	15 41	cloudy
ATHENS	13 25	cloudy	MOSCOW	15 41	cloudy
BEIRUT	13 25	cloudy	MUNICH	15 41	cloudy
BERLIN	13 25	cloudy	NEW YORK	15 41	cloudy
BIRMINGHAM	13 25	cloudy	NICE	15 41	cloudy
BUDAPEST	13 25	cloudy	PARIS	15 41	cloudy
CARLISLE	13 25	cloudy	PRAGUE	15 41	cloudy
COPENHAGEN	13 25	cloudy	ROME	15 41	cloudy
COSTA DEL SOL	13 25	cloudy	SOFIA	15 41	cloudy
DUBLIN	13 25	cloudy	STOCKHOLM	15 41	cloudy
FLORENCE	13 25	cloudy	TAVRIA	15 41	cloudy
GENEVA	13 25	cloudy	TEL AVIV	15 41	cloudy
HAMBURG	13 25	cloudy	TURIN	15 41	cloudy
HELSINKI	13 25	cloudy	VIENNA	15 41	cloudy
ISTANBUL	13 25	cloudy	WARSAW	15 41	cloudy
LAS PALMAS	13 25	cloudy	WASHINGTON	15 41	cloudy
LONDON	13 25	cloudy	ZURICH	15 41	cloudy
LOS ANGELES	13 25	cloudy			

(Yesterday's readings U.S. and Canada at 1700 GMT; elsewhere at 1200 GMT.)

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## Major Obstacle

### Carter Assails the AMA As Block to Health Care

By Martin Tolchin

SPOKANE, Wash., May 7 (NYT)—President Carter has attacked organized medicine as the "major obstacle" to better health care in the United States.

"I know that doctors care very seriously about their patients, but when doctors organize into the American Medical Association, their interest is in protecting the interests not of patients but of doctors," the President told 1,700 persons at a "town meeting" here Friday.

### Spaniard Given Death Sentence By Algerians

MEDEA, Algeria, May 7 (AP)—Algeria's state security court today sentenced to death a 32-year-old Spaniard convicted of the attempted April 5 assassination of Antonio Cubillo, leader of the Algerian-backed Movement for the Self-Determination and Independence of the Canary Archipelago.

Juan Antonio Alfonso Gonzales said during the two-day trial that he was sent to Algeria by a Spanish anarchist movement known as the Revolutionary Patriotic Front (FRAP) to kill Mr. Cubillo, whom he described as an agent of the CIA.

The prosecution denounced Gonzales's confession and charged that he was ordered to kill Mr. Cubillo by Spanish military intelligence services.

Gonzales confessed that he ambushed the 48-year-old Mr. Cubillo in the lobby of his Algiers apartment building and stabbed him repeatedly in the spine and abdomen. Mr. Cubillo is still on the critical list in an Algiers hospital and doctors say he may be permanently paralyzed in his lower limbs.

Jose Luis Cortes y Rodriguez, 22, who confessed he acted as lookout man for Gonzales, was sentenced to 20 years in prison.

### Soviet Officers Foil Hijacking Attempt

MOSCOW, May 7 (AP)—An armed man attempted to flee the country by hijacking a Soviet passenger plane on a local flight from Ashkhabad, the capital of Soviet Turkmenistan, but was killed by security officers, Tass reported yesterday.

The Soviet news agency identified the hijacker only as the "armed criminal Skubenko."

"They have been the major obstacle to progress in our country in having a better health care system in years gone by," he added.

The attack was made a day after a similar assault on the legal profession and was delivered in the President's new, forceful style.

**Tumultuous Welcome**

The meeting followed a tumultuous welcome from a crowd of 20,000. The meeting highlighted a three-day Western swing that bore many of the earmarks of a presidential campaign.

John White, chairman of the Democratic National Committee, said in an interview Friday: "I feel in him a sense of energy and excitement that I hadn't felt before. I thought he hit a home run in Los Angeles yesterday, and he did it again today with the bases loaded."

At the meeting, Mr. Carter said that the major goal of his administration was to rekindle a sense of idealism in the American people. "I would like to go out of office with a resurgence of idealism in our country," he told the audience, which had been selected by a lottery conducted by the League of Women Voters.

Mr. Carter also announced that a White House conference on small business would be held in the next 12 months to deal with problems such as taxes and regulations.

### Markets Sought For U.S. Goods

WASHINGTON, May 7 (UPI)—Agriculture Secretary Bob Bergland departed today for the Soviet Union, Britain, Norway and a number of Eastern bloc nations on a mission to sell U.S. farm products.

Mr. Bergland's first stop will be Moscow, where he will discuss trade relations with the ministers of agriculture, foreign trade and procurement. The visit also will include the two-yearly conference on the Soviet-U.S. grain trade.

Mr. Bergland has told reporters that in Moscow he will discuss whether the United States will offer the Soviet officials credit arrangements for grain purchases.

### Sudan Chief Visits Iraq

BAGHDAD, May 7 (AP)—Sudanese President Gaafar Numeiri arrived in Iraq today on a Middle Eastern tour aimed at mending the Arab rift over Egypt's peace initiative with Israel.



**PEDDLING GOODWILL**—President Carter's mother, Lillian, mounts an exercise in a Copenhagen home for elderly to push international cooperation. It was an exchange visit arranged by Friendship Force, a Georgia organization sponsored by Mr. Carter when he was governor.

### Whereabouts Still Unknown

### Vesco Bid to Quit Costa Rica Reported

SAN JOSE, Costa Rica, May 7 (AP)—A San Jose television station said yesterday that fugitive American financier Robert Vesco has written President-elect Rodrigo Carazo offering to move from Costa Rica if the government decides he is not wanted.

The station said the letter was dated May 6 and was signed by Mr. Vesco. In it, the writer denied any involvement in an alleged \$224-million fraud from the Geneva-based Investors Overseas Services mutual fund which he once headed. It asked the government to study his case carefully.

Mr. Vesco has refused to return to the United States for questioning by the U.S. Securities and Exchange Commission about the alleged fraud.

A charge brought by a Costa Rican alleging he was cheated of \$134,000 by Mr. Vesco was dismissed by a judge last month, but the government appealed, creating another obstacle in his effort to gain Costa Rican citizenship.

### 'Clear Conscience'

In the letter, the writer denied wrongdoing and added: "I never committed the famous \$224 million fraud nor any other fraud amounting to a single penny. I ran giant

businesses with a clear conscience, with legal counsel from the United States and Europe of high reputation. I never knowingly violated a single law."

Mr. Vesco, 43, also is wanted in the United States for an illegal contribution to former President Richard Nixon's campaign in 1972. He came to Costa Rica that year and later renounced his American citizenship. The U.S. Justice Department has been unsuccessful in several attempts to extradite him.

The letter did not disclose Mr. Vesco's whereabouts. Costa Rican immigration officials said he flew to Panama last Sunday in a chartered plane and that he planned to visit the Bahamas and Venezuela on business before returning to Costa Rica. He left Costa Rica on a 75-day travel permit after posting \$34,000 bond in the fraud case.

Panamanian and Venezuelan authorities said Mr. Vesco did not enter those countries and Costa Rican

### Shah Visit Announced

TEHRAN, May 7 (AP)—The Shah of Iran and Empress Farah will visit Hungary and Bulgaria on Friday, a court communique said yesterday.

### HEW to Begin Special Review

### Boom in U.S. Beauty Schools Linked to Federal Aid

By Walter Pincus

WILKES-BARRE, Pa., May 7 (WP)—In this city's classified directory, an advertisement for the Empire Beauty School contains the unusual bold-face notation: "Government Grants Available."

In fact, Empire promises prospective students with the urge to be beauticians that "We will assist you in securing federal grants, financial aids and loans."

Federal money has been a major ingredient in the recent prosperity of the 22-year-old Pennsylvania beauty-school chain which has headquarters in Portville.

In 1972, Congress passed the billion-dollar Basic Educational Opportunity Grant program which made federal funds available for the needy to attend privately owned trade schools, such as Empire.

**Retrenchment**

Until then, Empire had been retooling, and its student rolls shrinking. In 1974, when the 17-school chain became eligible for the basic grant program, it had 846 students and tuition was \$1,020. That first year it received \$170,000, according to federal records, enough to cover 181 students.

By last year, Empire was authorized almost \$1 million in federal funds to cover about 900 students. Records of the Department of Health, Education and Welfare indicate that attendance was up to 1,700 and tuition was \$1,300.

In a booklet designed for prospective students, Empire says that each federal aid program is different. "The school makes an evaluation of the individual, privately and impartially."

"You don't have to be poor to get financial aid," is a key statement, the book tells its students, referring to federal programs.

"Family income," according to the booklet, should be "middle to upper-middle income or less" to be eligible for grants. But it adds, "Students from families with higher income should speak with the financial aid officer at the school."

"Many of our schools would not be in existence today without grants," Empire's administrative manager George Schupp said. He claimed that "the education we give is superior to that which [public] vocational schools give."

The growth of Empire illustrates a national beautician school boom. The 1972 law "opened the floodgates," said Mark Lomery, of the Cosmetology Accrediting Commission.

"Growth since then has been phenomenal," Mr. Lomery said. His organization, whose accreditation makes a school eligible for federal funds, has grown from 200 schools in 1972 to 1,069 this year.

Of 76,331 students enrolled in accredited beauty schools in 1976, according to Mr. Lomery, 40,000 were receiving federal grants or loans.

With 20,000 students attending nonaccredited cosmetology schools, the output of trained beauticians appears to be far outstripping demand, according to Labor Department figures.

The federally financed beautician boom has not gone unnoticed in Washington.

HEW's deputy commissioner of education for student financial assistance, Leo Kornfeld, said recently that the federal programs were "oriented to provide access or choice" to needy students for future employment.

But, Mr. Kornfeld said, some proprietary schools have told prospective students, "Come to school, it will cost you nothing [because of federal funds] and then they paint a beautiful picture for tomorrow."

In addition, according to a report by HEW's Office of the Inspector General, there has been fraud, abuse and waste, particularly among cosmetology schools.

HEW is about to begin a special review of the way beauty schools have handled federal funds. It is part of a broader review of the more than \$15 billion poured into student aid in public and private institutions of higher education in the last five years.

The 1972 law was intended to help the poor get jobs, said William Gaul, assistant general counsel of the House Education and Labor Committee. "There was an understanding much good could be done in the vocational sectors," he added.

But now, Mr. Gaul said, there is concern "that many things may be out of hand. We are about to begin a process of review and evaluation of all the grant programs."

At HEW, sample audits last year directed by the department's Office of Inspector General found problems in more than half the proprietary schools reviewed. Beauty schools were particularly questionable.

**Strike Persists On Costa del Sol**

MALAGA, Spain, May 7 (AP)—An estimated 50,000 hotel and restaurant employees on the Costa del Sol continued a strike started yesterday for higher wages, leaving thousands of foreign and Spanish tourists without hotel services, including meals.

Leftist-dominated labor unions, which are negotiating for an increase of 8,000 pesetas (\$100) a month for the strikers, said if their demands were not met the strike will be repeated again next week.

Labor sources said that more than 3,000 hotels in the heart of this tourist belt from Malaga to Cadiz west of Gibraltar were affected by the striking workers.

### Execution Delay For Alabamian

MONTGOMERY, Ala., May 7 (AP)—Convicted murderer Johnny Harris cannot be executed when his 60-day stay of execution expires Tuesday, the clerk of the State Supreme Court said.

J.O. Sentiell said Friday that the court must set a new execution date for Harris before he can be put to death for the slaying of a prison guard during a 1974 riot.

The Harris case has gained the attention of Soviet journalists, who have portrayed the black inmate as a human rights fighter who has been persecuted by the state.

### Hungarian in Rome

ROME, May 7 (AP)—Hungarian Vice-Foreign Minister Janos Nagy arrived in Rome from Zurich today for two days of talks with Italian Foreign Minister Arnaldo Forlani and other government officials.

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### Cigars, Pipes Now; Cigarettes Later

## U.S. Said Planning Flight Smoking Ban

By Tom Redburn

LOS ANGELES, May 7 (AP)—The Civil Aeronautics Board will issue a final order soon banning the smoking of cigars and pipes on U.S. commercial airlines, according to informed sources.

In addition, the sources said Friday, the board will move toward eventually eliminating cigarette smoking on airlines as well.

The ban on pipe and cigar smoking would take effect within 60 days after the order is issued.

### Vietnam Is Restoring Dien Bien Phu Site

BANGKOK, May 7 (AP)—Vietnam is restoring the battlefield of Dien Bien Phu, where 24 years ago Vietnamese forces overwhelmed a French garrison.

The Vietnam news agency said today that plans were under way to restore battlefields, build a victory monument, a museum, a tourist hotel and an airfield.

Last November, the CAB instructed its staff to draft an order prohibiting cigar and pipe smoking on airlines, but because of the intense controversy surrounding the issue, it was delayed months beyond the normal time. There had been speculation that the board had quietly dropped the matter.

Currently, most airline flights divide smoking passengers from nonsmokers by providing separate sections for each.

According to a CAB source, letters on the question received by the board have been running 4 to 1 in favor of eliminating all smoking.

The Tobacco Institute, the lobbying and public relations agents of the tobacco industry, circulated a petition earlier this year opposing the suggested ban and suggesting instead that smokers be placed on one side of the aisle and nonsmokers on the other.

"Each smoking and nonsmoking passenger," the institute said, "deserves equal comfort, service, freedom from engine noise and access to exits." More than 130,000 tra-

## FBI May Have Renamed Its Informants

By Bob Warden

CHICAGO, May 7 (UPI)—Festivity by a high-ranking FBI official in a civil suit here indicates that the bureau may have many more persons providing information to it on suspected U.S. dissidents than William Webster, the new FBI director, asserted last week.

Associate FBI director James Adams testified in a sworn deposition before the U.S. District Court here in March that parts of the bureau's domestic security intelligence operation were renamed more than a year ago, although their basic function of furnishing information on U.S. citizens was not changed.

Declaring that "We are out of the business of investigating organizations simply because they say things that are unpopular in this country," Mr. Webster said Wednesday in a speech before the American Newspaper Publishers Association in Atlanta, that the FBI now has only 42 "domestic security informants." That is fewer than 8 per cent of the 535 who, according to a recently released sworn FBI statement, were working in 1976.

### Nationwide Network

However, Mr. Adams acknowledged at the March Chicago hearing that the FBI still has a nationwide network of persons who never were classified as "informants" but

who provide domestic security information to the bureau. As recently as 1975, there were more than 1,300 such persons and Mr. Adams said that the number still might be that high but "it doesn't appear to be."

These persons formerly were designated as "confidential sources" but now have no formal designation, according to Mr. Adams. In FBI jargon, an "informant" is someone who takes an active role to gather information, such as infiltrating an organization, while a "confidential source" was someone such as a college official or bank employee who merely passes along information gathered in the course of his regular business.

Mr. Adams also said at the Chicago hearing that it is "possible" that one-fourth or more of the 535 informants active two years ago are still reporting to the FBI but are no longer classified as working in the domestic security area. These informants, he said, are assigned to such organizations as the U.S. Communist party and have been reclassified as "foreign counterintelligence assets."

### Rare Occurrence

Other informants may have been similarly reclassified, Mr. Adams said, but it would have been a "rare occurrence."

In April, 1976, the attorney general's office tightened restrictions on FBI domestic security investigations in the face of accusations that the FBI had conducted widespread illegal wiretaps and burglaries against suspected U.S. dissidents.

However, guidelines on investigations against those suspected of participating in foreign intelligence cases, if they exist, are classified. Also classified are the number of informants engaged in foreign counterintelligence operations.

In the Atlanta speech, Mr. Webster said that there are 1,789 informants reporting on general crime activities and 1,060 reporting on organized crime, in addition to the 42 domestic security informants.

Mr. Webster mentioned neither

the current activities of persons formerly classified as confidential sources nor the extent of operations reclassified from domestic security to foreign counterintelligence.

An FBI spokesman said last week that a comparison of Mr. Webster's numbers with those of Mr. Adams was invalid because the reclassification had so complicated the figures that an analysis of them was "like comparing apples and oranges."

## Saudi Leader Sees Rise Soon In Dollar Value

BEIRUT, May 7 (AP)—Crown Prince Fahd of Saudi Arabia predicted that the value of the U.S. dollar will begin to rise next month and reaffirmed his country's opposition to increasing the price of oil. Beirut newspaper reported yesterday.

In an interview with Al Bayraq, the Crown Prince said that advocating an increase in oil prices when the dollar is falling is not a solution. Should the dollar deteriorate to the lowest level, it means the entire world economy would deteriorate, too, he said.

The interview with the newspaper's publisher, Milhem Karam, coincided with the opening of a conference in Taif, Saudi Arabia, of oil ministers of the Organization of Petroleum Exporting Countries to consider the price issue.

His remarks in support of the dollar and in favor of holding down prices also comes as the U.S. Congress debates President Carter's controversial proposal to sell Saudi Arabia 60 advanced F-15 jet fighters, along with the sale of planes to Egypt and Israel.

Crown Prince Fahd has his optimistic forecast for the dollar on measures he said were being taken by West Germany, Japan, Switzerland and the United States, which he said was now selling large quantities of gold in the market.

## U.S. Senate Report Finds Failure in Army System

WASHINGTON, May 7 (UPI)—The Senate Armed Services Committee, concerned by the all-volunteer army's failure to attract enough recruits, told the Pentagon today that it should study other ways to do the job, Sen. Sam Nunn, D-Ga., said today.

Attrition rates have risen sharply, the committee report said, and reserve force levels are dangerously below emergency requirements. Even an immediate resumption of the draft system would take precious months to build up troop strength, it said.

"Given the strain necessary to attract the current numbers of recruits and the larger incremental costs of increasing force levels," the report said, "it should be clear that the all-volunteer force is a peacetime concept that is not now providing sufficient numbers of reserve personnel and would be hard pressed to provide additional numbers of active recruits should the national security require an expansion of current active force levels."

Sen. Nunn, chairman of the manpower and personnel subcommittee,

said that 40 per cent of the enlisted personnel, 240,000 in fiscal 1977, were unable to complete their first term of military service.

### Below Emergency Needs

The Individual Ready Reserve is 400,000 below emergency personnel requirements and the selected reserve is 47,000 below authorized strength.

"For our reserves, the all-volunteer force is a dismal failure," Sen. Nunn said in a speech prepared for the Georgia National Guard Association on Jekyll Island, Ga.

In Washington, Sen. Nunn released part of the committee's report that was added to the defense authorization bill.

"The committee continues to be concerned over the ability of the active military to attract sufficient numbers of high quality recruits... the reserve forces are encountering even greater problems... there are critical shortages of doctors and other skilled personnel in both active and reserve components," the committee said.

Even a revival of the draft machinery that was all but dismantled by the Ford administration would be slow, the committee added.

"The current inactive Selective Service System could only begin to provide draftees in limited numbers for initial assignment to units seven months after mobilization — a period so long as to raise serious questions about our capabilities for an intense war without warning."

The committee said that the Pentagon should study alternatives including: Improvements in the effectiveness and fairness of the draft, a new standby draft which would include mandatory registration, physical and mental tests of eligible youths before enlistment and a standby classification system and ways to improve recruiting.

## Italian Is Fined In Salami Case

MILAN, May 7 (AP)—Ambrogio Molteni, co-owner of a large salami company and involved in a case of rotten salami exports, has been sentenced by a local court to pay a fine of 2.5-billion lire (\$2.7 million).

The industrialist was convicted of smuggling but was acquitted of more severe charges of forgery and fraud, thus avoiding prison terms.

Mr. Molteni was tried in absentia since he has been hiding in Switzerland since an arrest warrant was issued two years ago. The case concerned exports of salami made with excrement. The rotten salamis were not for sale. It was a trick for receiving government export benefits.

## Carlists March To 'Holy Mount' Without a Ban

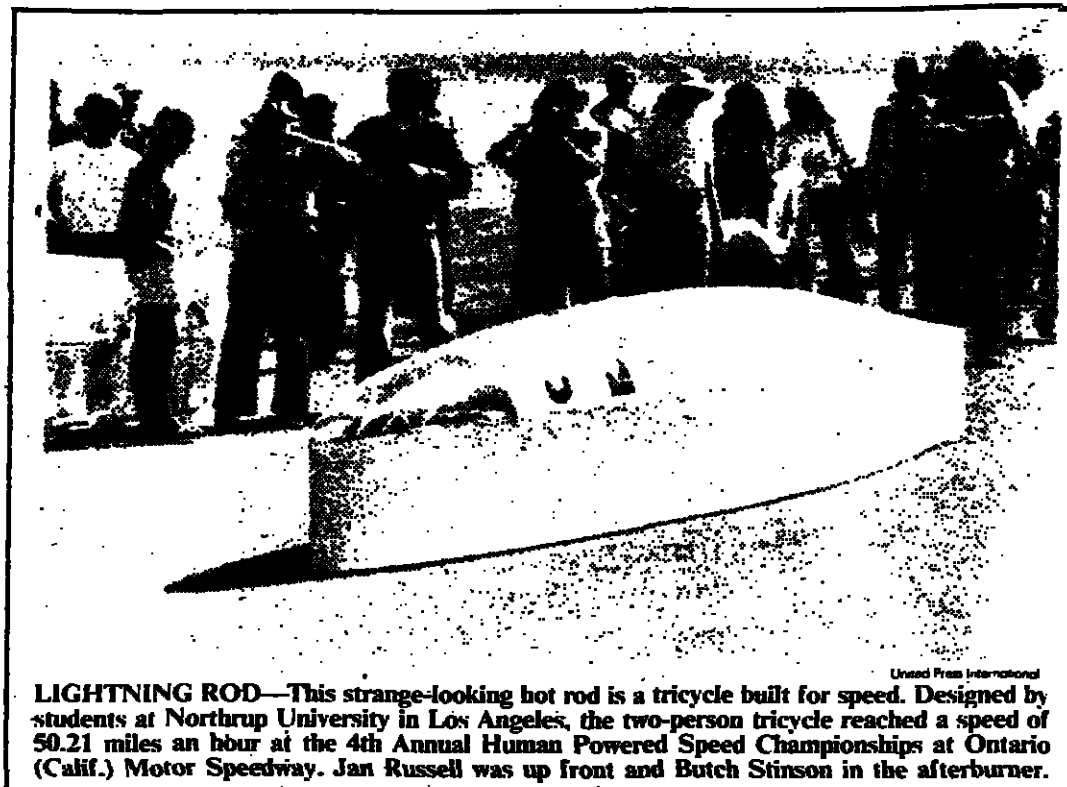
PAMPLONA, Spain, May 7 (UPI)—Spain's Carlists — a leftist monarchist movement — today held their traditional pilgrimage to their "holy mountain," commemorating the day in full freedom for the first time since the 1936-1938 civil war.

Police said no incidents were reported as the pilgrims, many of them wearing red berets and carrying the white Carlist flag and red, white and green Basque flags, climbed Montserrat mountain to hear mass, remember their dead and listen to speeches.

Prince Carlos Hugo de Borbon, who was allowed to return from exile last year, led the procession. In previous years, he flew over Montserrat in a small plane as his followers held the pilgrimage despite the ban, often harassed by police and riotous.

The Carlists split from the mainstream Borbon dynasty in the 19th Century. They sided with Franco in the civil war, but turned against him when he picked Juan Carlos as the heir to the throne.

Under the influence of Carlos Hugo and other leaders, they have increasingly turned to the left. But Carlos Hugo recently dropped his pretension to the throne and was received by King Juan Carlos. The two are distant cousins.



**LIGHTNING ROD**—This strange-looking hot rod is a tricycle built for speed. Designed by students at Northrup University in Los Angeles, the two-person tricycle reached a speed of 50.21 miles an hour at the 4th Annual Human Powered Speed Championships at Ontario (Calif.) Motor Speedway. Jan Russell was up front and Butch Stinson in the afterburner.

### Held for 9 Months

## Student Tells of Life In E. German Jail

WINDOM, Minn., May 7 (AP)—Alan van Norman, a U.S. student, fought off the monotony and uncertainty of an East German prison for nine months with humor and mental calisthenics. He even began looking forward to eight-hour interrogation sessions, which were better than lying in his cell.

The 22-year-old former Bible-camp counselor had been sentenced to 2½ years for trying to smuggle an East German family to the West in the trunk of his car.

He was exchanged last week for convicted Soviet spy Robert Thompson, who was released from a U.S. penitentiary in Pennsylvania. East German attorney Wolfgang Vogel helped arrange the trade. He arranged a similar one involving U-2 pilot Francis Gary Powers in 1962.

For three months, five days a week, eight hours a day, Mr. van Norman said here, he was questioned by a German-speaking man. Mr. van Norman sat in a corner, his back against a wall, and listened as a woman interpreted.

"They kept asking, 'Who's sent you?'" he said.

"Finally I said: 'Mr. Ed, the talking horse. They got angry with me and said, 'Tell me about the plan.' I said, 'Japan and Alberta (a Canadian province) are planning to roll up Russia and send it to Mars. They asked me if I would sign that.'"

Back in his 9-foot-by-12-foot room, Mr. van Norman reviewed the day's questioning, trying to make his story airtight.

"You didn't like it when they were asking you questions, but you didn't like it when they were quiet either. That meant they were trying to nail you, digging up new information from somewhere," he said.

### Attempt Failed

Mr. van Norman tried to hide what he knew — including the names of the people who approached him at a Lutheran retreat in northern England in 1976 and asked him to help get Dr. Juergen Graf, his wife and son out of East

## Collision Splits Greek Tanker; Spill Held Minor

GORLESTON, England, May 7 (AP)—A Greek tanker, carrying 2,000 tons of oil was cut in two in a collision with a French ship in the North Sea off eastern England yesterday. A government spokesman said the resulting oil slick did not constitute a major pollution hazard.

Rescuers who went to the scene nine miles off the coast of Norfolk, said that all crew members were safe and unharmed.

The crew of a Royal Air Force helicopter reported that an oil slick about a quarter of a mile long and an eighth of a mile wide was drifting northwest, parallel to the English coast. The oil has seeped from the severed front half of the 12,680-ton tanker-Elent V. Tanks containing 6,000 tons of oil in the rear section of the tanker are believed to be intact.

A spokesman for the British Department of the Environment said some oil was bound to come ashore from the collision, but he added: "We don't consider this a major pollution incident."

The other ship involved in the collision was the 16,023-ton French-registered merchant vessel Roseline.

### Earthquakes Hit Iran

TEHRAN, May 7 (AP)—Iran radio reported early today from Ardabil near the Soviet border that several earthquakes rocked the town but caused no damage or casualties.

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## Elephant Kills Its U.S. Trainer; 2d Seized After Fleeing Circus

ROCK FOREST, Quebec, May 7 (AP)—An elephant trampled its U.S. trainer to death during a circus performance and another elephant that fled into a nearby forest in panic was recaptured yesterday, police reported.

A police sharpshooter killed the first elephant Friday night while it stood over the dying trainer, Elvise Berchold, 42, refusing to let handlers approach. The second elephant, terrified by the screams of about 250 spectators, ripped through the circus tent and ran up the main street of this small town 100 miles east of Montreal and into nearby woods.

Police and circus workers ringed the animal and held it at bay for 16 hours until animal importer Morgan Berry, of Woodland, Wash., flew here. The elephant immediately responded to Mr. Berry, who had raised it, and was led back to the circus grounds.

Mrs. Berchold, also of Woodland, apparently slipped and fell during the Gaiini Circus performance and the 6,000-pound elephant walked over her, according to a police spokesman. Circus workers tried several times to remove her body but the elephant would not let anyone near.

Spectators were evacuated from the tent while police summoned a veterinarian. Several tranquilizing darts were fired but had a maddening effect on the animal, the spokesman said. Then the sharpshooter was summoned.

## U.S. Court Bars Canadian Boats

SEATTLE, May 7 (AP)—U.S. fishermen have won a temporary injunction blocking Canadian boats from fishing in Pacific coastal waters off the U.S. District Court Judge Donald Voorhees.

U.S. authorities argued that the order would strain relations between the two countries. Canadian fishing boats have been allowed to fish within U.S. waters since the early 1970s by reciprocal agreement between both governments.

An agreement has been drafted between the two governments to continue the policy under the 200-mile fishing limits imposed by both countries, but has not yet been ratified by Congress.

The suit was brought against the Commerce and State Departments by the Washington Trollers Association and the Quileute Indian tribe.

## London Times Warns Unions Of a Shutdown

LONDON, May 7 (AP)—Times Newspapers Ltd. has warned leaders of printing unions that it will shut the Times and the Sunday Times within two months if unofficial strikes continue to disrupt production.

A spokesman for the company yesterday confirmed the ultimatum after a day of gossip about it in Fleet Street, London's newspaper quarter.

Sources at the company said the management wants new agreements covering dispute procedures, wages, technology and staffing completed by November. Some of the factors in past disputes have involved staffing levels, wage differentials and demarcation fights between different unions. Union resistiveness springs largely from fear that new machines will displace scores of workers, the sources said.

Labor disputes in the London plant cost the two newspapers a total of 8 million copies — 20 per cent of their output — in the first three months of this year and the equivalent of £1,750,000 (\$3,237,000) in profits.

## China Chief Affirms Support of N. Korea

TOKYO, May 7 (AP)—Chinese leader Hua Kuo-feng told 100,000 North Koreans today that the people of China and the whole world "are on your side" and denounced what he called the U.S. "policy of aggression and division" in Korea.

Mr. Hua demanded that the United States withdraw all its troops and military equipment from South Korea and said that North Korea "is the sole legitimate sovereign state. We do not recognize the South Korean authorities."

## PORTUGAL HOLIDAYS

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If you dream of long sandy beaches, tropical vegetation, a limpid sea warm all the year round, then choose Mexico for your next holiday. Mexico's 8,000-mile coastline boasts hundreds of beaches: La Paz on the Sea of Cortés, Cabo San Lucas, Guaymas, Mazatlan (the pearl of the Pacific), Carey, Puerto Vallarta, Manzanillo, Ixtapa-Zihuatanejo, world-famed Acapulco... to name only a few. Off the Caribbean coast are the delightful islands of Cozumel, Isla Mujeres, and Cancun - the latest to be opened up to tourists. But there's more to Mexico than beaches and islands. There are the impressive pre-Columbian sites of Teotihuacan, Monte Alban, Chichen Itza... the old-world charm of colonial towns like Taxco and San Miguel de Allende... the modern architecture and cosmopolitan sophistication of Mexico City, the capital. Throughout the country there are excellent hotels in all categories whose restaurants serve delicious local specialties as well as international cuisine. This year, orange course - head for Mexico!

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## 2. Your mother worries.

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## Mondale in Australia for Talks on Refugees, Uranium

CANBERRA, May 7 (AP)—U.S. Vice President Mondale arrived in Australia today for talks likely to center around the increasing flow of Vietnamese refugees into Australia and export of the country's uranium deposits.

Mr. Mondale flew into the Australian capital aboard a presidential jet with his wife, Joan, and son, Ted, accompanied by officials and 44 security men, after visiting the Philippines, Thailand and Indonesia.

Mr. Mondale's arrival coincided with that of two more Vietnamese refugee boats in the northern port of Darwin, the latest in the stream of refugees that is causing the Australian government serious concern.

The latest arrivals, with 70 persons aboard, make a total of 41 boats and more than 1,200 refugees who have arrived on Australia's unguarded northern coast in the last three years.

Officials fear disease. Australian officials have expressed fears that such uncontrolled immigration could spread rabies, cattle virus, malaria, typhoid and cholera, diseases from which Australia is now free.

Australia would like to see the United States take more of the Vietnamese who arrive in Australia.

Mr. Mondale was met at the Canberra Royal Australian Air Force base by Australian Foreign Minister Andrew Peacock and U.S. Ambassador Philip Alston.

Unprecedented security surrounded the vice-president for his 7.45 p.m. arrival. Bridges, intersections and buildings along the route

from the base to the lakeside hotel in downtown Canberra, where the Mondales are staying, were heavily guarded.

The Australian government has stepped up its internal security measures since the February bombing of the Sydney Hilton during a regional Commonwealth heads of government meeting. Three persons, all city council workers, died in the blast.

Mr. Mondale's schedule calls for him to visit the Australian Parliament tomorrow for talks with Australian Prime Minister Malcolm Fraser and the Australian Cabinet, then lunch with the U.S. ambassador.

Apart from a wreath laying ceremony and a dinner with Mr. Fraser at his official residence tomorrow night, Mr. Mondale has no other engagements before his departure

for New Zealand Tuesday morning. Australian officials said that they would all raise the subject of Australian beef quotas to the United States with the vice-president, the first high ranking member of the Carter administration to visit Australia.

The U.S. Congress is debating whether to cut Australia's beef quotas at a time when the Australian beef industry is suffering a serious

loss of markets in Japan and Europe.

Mr. Fraser also is expected to express pessimism about the state of world trade and what he sees as an increasing move toward protectionism and high tariffs by developed countries, particularly the European Economic Community.

Mr. Mondale is reported to want to discuss Australia's uranium policy, which is a major political issue in Australia. Recent discoveries in northern Australia have indicated Australia has one-third of the world's easily recoverable high grade uranium.

The Australian government, however, has put strict conditions on its export, specifically that customers would not reprocess reactor waste to plutonium, or use it for weapons.

### Sailors Ready for War

## Sixth Fleet—'Just Professionalism'

By Drew Middleton

ABOARD CARRIER FORRESTAL, in the Mediterranean, May 7 (NYT)—A Phantom fighter-bomber roared down the flight deck into the morning sun. The day's work had started.

The Forrestal plowed through the mist. On the horizon the frigate Aylwin, one of its escorts, bounded on the swell. One by one, two by two and sometimes four at a time, the aircraft swept off the flight deck, some to make simulated attacks on an accommodating Italian frigate, some to practice bombing techniques. A Hawkeye lifted an ungainly 37,000 pounds to take station as an intercept and early warning aircraft.

The crew on the flight deck were hard at work. Helmeted, clad in various colored shirts, they gestured to the pilots, slapped the deck and, when the aircraft was launched, felt on their bellies in the wreaths of steam from the catapults.

### Small Fire

The night before there was a small fire forward. The iron clamor of the bell sounding general quarters was followed by the clatter of hundreds of feet on the way to stations. The sailors came down the passageway, young, alert, running hard toward the fire.

In the quiet of his quarters after the fire had been put out, Rear Adm. Robert Schmitt, commanding Carrier Group Two, listened approvingly as Capt. Peter Booth, the skipper, complimented the crew on its professionalism in an emergency.

"Sometimes at home you get sore when people say this generation won't work, won't fight," the admiral said. "You saw them. You saw the way they work on the flight deck and in the engine rooms. These are good boys."

The carrier group centered on the Forrestal is part of the Sixth Fleet. If the kids are good, as the petty officers say, they had better be, for the fleet's mission is as challenging as any facing a U.S. naval force in peace. It is "responsible for conduct of naval operations as may be directed by competent national and/or NATO authorities to insure control of the seas and air within the Mediterranean Sea, the Black Sea and ashore in countries contiguous to or near the Mediterranean Sea."

### Task Forces

To carry out its mission the fleet has 40 to 50 ships, 200 aircraft and 23,000 to 25,000 in its crews, divided into eight task forces based on operational requirements.

The cutting edge is Task Force 60, consisting at the moment of two attack aircraft carriers, the Forrestal and the Nimitz, and their escorts, cruisers, destroyers and frigates. The combined elements of two other task forces, 61 and 62, provide amphibious-landing capability. Task Force 62 includes a reinforced Marine battalion supported by tanks and guns, while Task Force 61 is made up of amphibious assault ships, attack transports and cargo vessels.

Nuclear-powered strategic submarines armed with Polaris ballistic missiles make up Task Force 64. Task Force 65 is the anti-submarine force, which coordinates all anti-submarine warfare in the fleet, and Task Force 67 is a shore-based group of anti-submarine and surveillance aircraft. In Task Force 69 are the attack submarines assigned

to the fleet at present all nuclear-powered. Least noticed but indispensable is Task Force 63, the service force that provides fuel, supplies, ammunition and repair.

To leave the frenetic activity aboard the Forrestal for the flag-ship, the guided-missile cruiser Albany, is like going from the floor of the Stock Exchange to the boardroom of a bank.

### Oil Must Flow

Although Harry Train, the vice-admiral who commands the fleet, has the quiet, assured air of a corporation executive, when he sketches his command's responsibilities these responsibilities have larger dimensions. There are, he pointed out, 10 billion barrels of oil moving through the Mediterranean on any given day. 50 per cent of the oil consumed by U.S. partners in the North Atlantic Treaty Organization is refined in Europe and, Adm. Train said, "the oil must get there."

That is only one of his concerns. There are six scenarios that he and the fleet must be prepared to act out in war, he continued.

The first is to employ carrier-borne aircraft to support allied ground forces fighting an invasion of northern Italy by Soviet and other Warsaw Pact forces moving out from the Girona Pass from Yugoslavia. The second is to use aircraft and other resources to help NATO forces fighting a Warsaw Pact invasion from Bulgaria into Greece and Turkish Thrace, an invasion that, if successful, would give the Eastern bloc control of the waterways leading from the Black Sea to the Mediterranean.

The third scenario envisages air support of a land war after a Soviet invasion of eastern Turkey. Then there is the prospect of a naval war independent of land operations. Despite the growth of the Third Squadron of the Soviet Black Sea Fleet, deployed in the Mediterranean, neither Train nor his task

## New Train Line In U.K. Today

LONDON, May 7 (AP)—British Rail will open a new service tomorrow between London and Edinburgh at speeds up to 125 miles an hour.

The Inter-City 125 service will cover the 400-mile journey in 4 hours, 52 minutes, 35 minutes faster than the current 100 mph Inter-City trains.

Fares will be the same as for other trains on the route. Six diesel-powered trains will open the new service. More will be added as the London-Edinburgh trains now operating are phased out.

## U.K. Mice Embryos Survive Deep Freeze

LONDON, May 7 (UPI)—Scientists have successfully revived mice embryos frozen in suspended animation five years ago, according to a London medical researcher.

Dr. David Whittingham, of University College London, told the Royal Society last week that mice frozen in liquid nitrogen as 3-day-old embryos five years ago were thawed out earlier this year and implanted into a female mouse. She gave birth to an apparently normal litter last month.

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## Pan Am's People



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## Errett Scribner, Representative Of Kansas, Dies

COCOA BEACH, Fla., May 7 (AP)—Errett Scribner, 80, who represented the Kansas City, Kan., area in the House of Representatives for 15 years, died Friday.

Rep. Scribner was elected to Congress in 1943 and was the ranking Republican on the House Military Appropriations subcommittee.

He also was one of the authors of the GI Bill of Rights and is credited with introducing the first revenue-sharing proposal, foreshadowing the legislation that passed nearly 25 years later.

In 1958 he was appointed assistant deputy secretary of defense by President Dwight D. Eisenhower.

### Stefan Peterfi

MEXICO CITY, May 7 (AP)—Stefan Peterfi, 71, one of four Romanian vice-presidents, died yesterday of an apparent heart attack at the Mexico City airport while waiting to board a plane, a spokesman for the Mexican Foreign Ministry said.

Mr. Peterfi was the highest representative of Romania's Hungarian minority of 1.7 million and a noted dentist. He was elected chairman last March of a newly set up Council of the Working People of Magyar (Hungarian) Nationality, following reports of alleged official suppression of Hungarian and other minorities.

### Manzo Nomura

TOKYO, May 7 (AP)—Manzo Nomura, 79, honored as a living national treasure for his performances in traditional Japanese Kyogen comedy, died of cancer yesterday.

### Kyla Obitt

SANTA MONICA, Calif., May 7 (AP)—Pioneer modern dancer Maya Kyla, 68, who studied under Martha Graham and Agnes DeMille, has died here.

### Roberto F. Giusti

BUENOS AIRES, May 7 (AP)—Roberto F. Giusti, 91, a literary critic, politician and author of more than 20 books, died here last night.

## Passman Weighs Plea Bargaining

ALEXANDRIA, Va., May 7 (UPI)—A lawyer for indicted former congressman Otto Passman yesterday said that plea-bargaining arrangements have been discussed, but nothing definite has come of them.

He said that Mr. Passman rejected a Justice Department offer to drop some charges against him if he would plead guilty to a felony.

Mr. Passman, 77, was indicted March 31 by a federal grand jury in Washington on charges that he conspired to receive \$213,000 in illegal payments from Korean businessman Tongson Park from 1972 to 1976. He was indicted again April 28 on charges of evading more than \$77,000 in taxes by failing to report \$143,000 in income.

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WestLB's service emphasis on wholesale financing, both at home and abroad, and its strength in the Bank's market position and brought excellent results for the 1977 financial year. The Bank's operating income of 1.4 billion DM, an increase of 1.5 billion DM over the 1976 figure, was achieved by a 1.5 billion DM increase in operating income, offset by a 0.1 billion DM increase in administrative expenses.

WestLB's leading position in domestic and international finance and was again enhanced by the Bank's extensive financing capacity. The total body of available funds increased by an amount of 1.5 billion DM to 1.5 billion DM. The Bank's operating income of 1.4 billion DM was achieved by a 1.5 billion DM increase in operating income, offset by a 0.1 billion DM increase in administrative expenses.

WestLB's operating income for 1977 amounted to 1.4 billion DM, an increase of 1.5 billion DM over the 1976 figure. The Bank's operating income of 1.4 billion DM was achieved by a 1.5 billion DM increase in operating income, offset by a 0.1 billion DM increase in administrative expenses.

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It also was in the management of 10 of the 42 private placements in DM WestLB was in the management group of 51 public issues and private placements for Euro issues in other currencies. The Bank also participated in 151 other non DM issues, and in the US it was a member of the syndicate in 13 domestic US issues.

In addition, WestLB played a dominant role in domestic DM loans to international borrowers on a long term fixed interest basis. WestLB's strong commitment to sound personal advice in the field of money management is evidenced by a continued increase in the placement of fixed interest securities, both national and international, and in the placement of fixed interest securities in the US.

Foreign exchange operations benefited from the Bank's sound oriented advice and increasing currency uncertainties. International commercial banking activities such as letters of credit, payment transfers and export import financing increased substantially, reflecting high quality and rapid service and close contacts with customers.

Specialized local and international facilities through the Bank's international network were also used extensively. Domestically the Bank enjoyed a particularly favorable reputation in long term financing for export clients. Long term buyers' credit arrangements with German export efforts also showed a strong average growth.

WestLB began 1978 by assuming complete ownership of the Frankfurt based merchant bank W&A. With this dynamic and flexible institution, WestLB's position in the world's money market is further strengthened.

WestLB's operating income for 1977 amounted to 1.4 billion DM, an increase of 1.5 billion DM over the 1976 figure. The Bank's operating income of 1.4 billion DM was achieved by a 1.5 billion DM increase in operating income, offset by a 0.1 billion DM increase in administrative expenses.

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## Adventure in Angola

South Africa's paratroop strike at guerrilla bases deep in Angola must have been meant to appease hardline whites who condemn Pretoria's acceptance of a Western compromise for the independence of South-West Africa (Namibia). The raid also in effect notified the South-West Africa People's Organization (SWAPO), whose camps it hit: Accept the deal or risk a more savage war.

The Western plan calls for a cease-fire in Namibia, withdrawal of most South African forces and United Nations supervision of elections for a constituent assembly. SWAPO's leaders have hesitated to accept it, fearing that once they lay down their arms South Africa will renege and leave them helpless. After the South African raid, they may find acceptance politically impossible.

If SWAPO rejects the Western proposal, South Africa is ready with its own plan for Namibian independence, including a constitution that would guarantee a political veto to the new country's white community (12 per cent of the population); it would also prolong the protective presence of South African troops. That, we suspect, is precisely what motivated the strike so deep into Angola. And that is why, despite Pretoria's claims

of provocation, the raid deserves the strong condemnation of the international community.

The action is also suspect on military grounds. SWAPO's 2,000 guerrilla fighters may annoy the South Africans but they pose no threat that justifies attacks on targets 150 miles north of the Namibia-Angola border. South Africa has merely provided one more justification for the presence in Angola of Cuban troops.

South Africa's raid came on the heels of a special session on Namibia in the United Nations General Assembly, which four years ago recognized SWAPO as the "sole and authentic representative" of Namibia's peoples. The assembly took no formal notice of the Western efforts to find a compromise for independence and contented itself with a ritualistic appeal for "comprehensive economic sanctions" against South Africa.

More useful would have been a descent from these glades of rhetoric to the stony ground of real politics and a bid to SWAPO to accept the Western proposal before South Africa completely undermines the solution it claims to have bought.

THE NEW YORK TIMES.

## Peace-Keeping in Lebanon

The incident in which three United Nations soldiers were killed in southern Lebanon the other day goes to the heart of the problems the international community frantically thrust upon the world body when Israel intervened in Lebanon earlier this year.

To induce the Israelis to withdraw, something had to be done to prevent Palestinian guerrillas from easily resuming from southern Lebanon the raids into Israel to which Israel had responded by its invasion. The United Nations, which was keeping peace already on Israel's borders with Syria and Egypt, was hastily recruited. If people had focused sharply on the difference in Lebanon, however, one wonders whether the United Nations would have been assigned the job.

In those other places, very fine-grained agreements were worked out before the peace-keeping units were sent, and the established governments that worked out the agreements accepted responsibility for putting them into effect. In Lebanon, almost none of the detail was worked out in advance and, most important, on the Lebanese side there has been no single established authority with which Israel and the United Nations could deal. The Lebanese government's writ simply does not run in southern Lebanon; it has no army to speak of. The Palestine Liberation Organization claims to speak politically for all Palestinians, but it lacks operational control over diverse Palestinian units and individuals in the area. That is the swamp the United Nations is in.

In the incident Tuesday, Palestinians apparently not under the control of the PLO shot up a UN contingent. The PLO, which has vowed to cooperate in the particular issue of the safety of peace-keeping personnel,

set out after the offending guerrillas. But, meanwhile, the UN contingent reduced its patrolling, thus raising the critical question of whether it is or will become a UN practice to retreat under guerrilla intimidation or whether, as one must hope, the peace-keeping force was merely making a limited and temporary adjustment.

On Wednesday the Security Council reaffirmed its confidence in the peace-keeping potential by deciding to add 2,000 men to the 4,000 already on station. The fact remains that in undertaking to ensure the "peaceful nature" of the border area, the United Nations has tackled a project that the Lebanese government, the Christians of southern Lebanon and their patrons, the Israelis, had not previously been able to perform. Indeed, under the best imaginable circumstances the United Nations could not expect to stop every infiltrator, given the terrain; nor to prevent guerrillas in the zone to the north from firing long-range guns at Israeli border villages; nor to halt Palestinian raids launched by sea from places like Tyre, a Palestinian redoubt that even the Israelis were loath to take on. In the circumstances, the Israelis have reason to want to see their nemesis, Yasser Arafat, tighten his authority over the undisciplined extremist elements in the Palestinian movement, as unwanted by Tel Aviv as the political results of that tighter control might be.

The United Nations is working on a military aspect of a problem whose essence is political. It is the Palestinian problem. No tranquility will come to southern Lebanon, or to Lebanon as a whole, or to Israel, while the legitimate grievances of the more moderate Palestinians are unresolved. That may not offer much consolation to the UN forces under fire. But it should remind the parties to the peace negotiations of the perils that lie ahead if no progress toward a comprehensive Mideast settlement is made.

WASHINGTON POST.

## International Opinion

### The Two Germanies

One of the subjects nearest the center of Mr. Brezhnev's preoccupations in Bonn this week must be relations between East and West Germany. This remains the heart of the European problem.

In West Germany there is no significant interest in reunification, if only for the simple reason that life is not at all bad as it is.

The situation in East Germany is less predictable. There have been growing symptoms of social and political stress. None is serious enough to threaten a breakdown of order, especially with about 20 Soviet divisions in occupation. The difference in living standards between the two parts of Germany is widening. Unless the East Germans can offer a reasonable prospect of narrowing the gap with West Germany the expectations aroused by open exposure to the wealthier and freer life of the west will remain a constant source of trouble and a stimulus to thoughts about reuniting the two states.

From the Times (London).

### Lockheed Sale

They do not love us in Hartford, Connecticut. Mr. Harry Gray, chairman of Pratt and Whitney, the U.S. aero engine makers, is protesting about the success of the British in winning a contract [to sell Rolls-Royce engines to Lockheed for its TriStar airlines].

We are very fond of the Americans and want to do as much trade with them as possible. Indeed we want to sell them more engines. But it is plain ludicrous of American businessmen to start grizzling about hard selling with government guarantees behind it. The Americans themselves created a Buy American Act which required work in certain fields to be awarded prescriptively to U.S. companies unless foreign rivals could undercut their tenders by 50 per cent.

It is rather enjoyable for the British to be accused of cutting corners and aggressive commercial practice. We have spent far too long as perfect gentlemen not trying very hard to win. The limp and passive image of the British, as other people with sharper elbows passed us on the inside track, ought to go.

From the Daily Express (London).

## In the International Edition

### Seventy-Five Years Ago

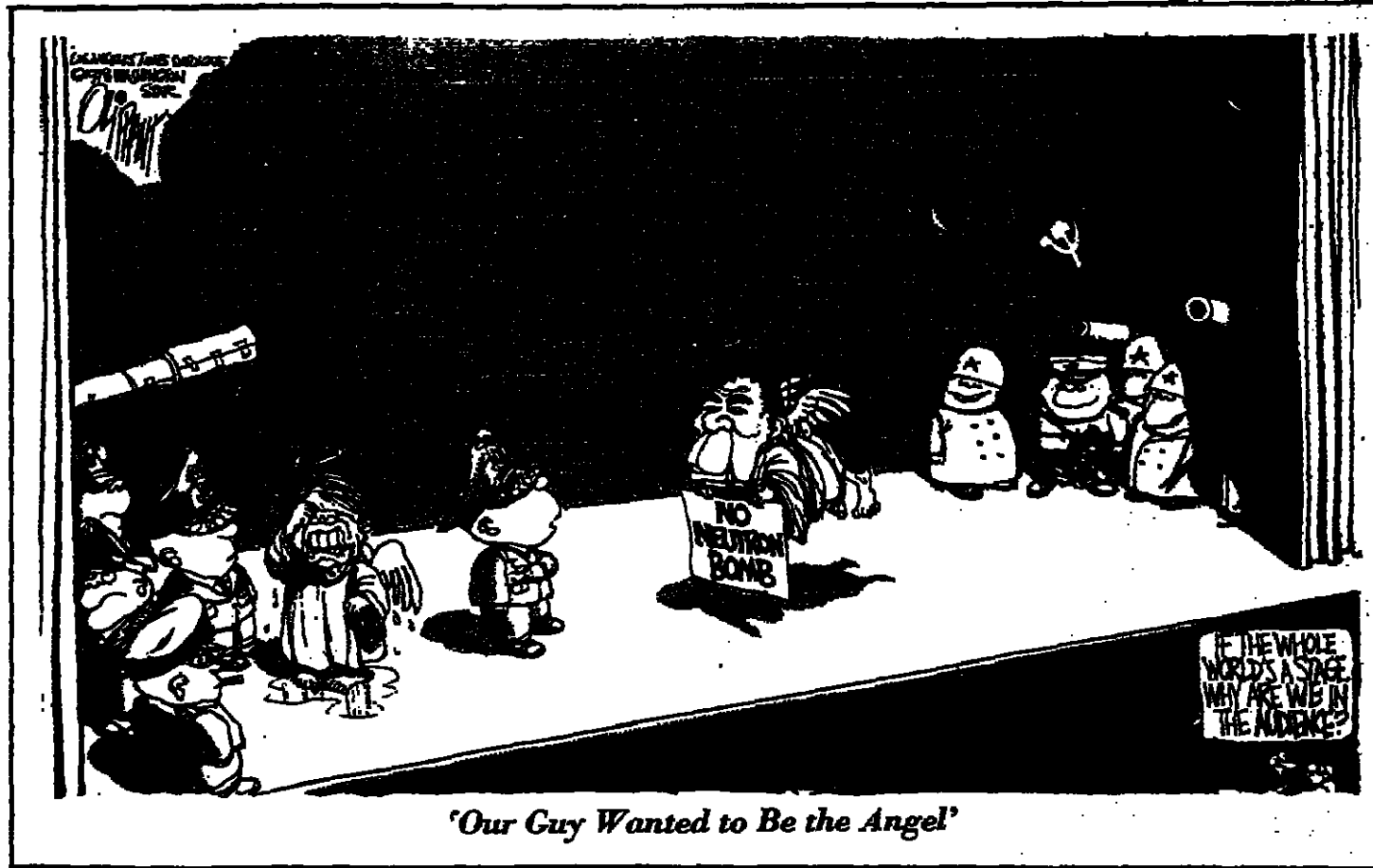
May 8, 1903

GENEVA—The chief medical officer of the United States Army, Brig. Gen. O'Reilly, and his staff will visit Switzerland early in the summer for the purpose of studying Swiss hospital methods. A prolonged tour is projected, including the principal towns. An elaborate report will be prepared, and the medical profession here is planning a big reception for the foreign guests and will afford them every facility.

### Fifty Years Ago

May 8, 1928

PLYMOUTH—Six German deserters from the French Foreign Legion were landed here today by the Dutch steamer Commeweyne instead of at Havre, where it was feared they might have been recaptured by the French authorities. They boarded the steamer in Paramaribo, Dutch Guiana, after they had deserted in French Guiana. The German consul provided them with clothes, money and food.



'Our Guy Wanted to Be the Angel'

## Carter's Personal Dilemma

By James Reston

WASHINGTON—There has been a theory around the White House for quite a while that the only way Jimmy Carter could hope to be a two-term president was to act like a one-term president—speaking out for the public interest as plain as a punch in the nose.

Carter has fiddled with this populist notion from time to time, as when he roared the big oil companies and members of Congress on the energy problem before retreating and proclaiming a "partnership" with Capitol Hill. But lately, as his standing in the popularity polls has dropped, he has been outspokenly critical of Soviet policy in Africa, Israeli policy in the Middle East, and, most recently, almost provocatively critical of lawyers and doctors here at home.

About this time, almost halfway through the first term, most recent presidents have found themselves in a slump between the end of the honeymoon and the struggle of the next election, and have had to decide whether to fight or compromise.

### Which Road?

Truman, Kennedy, Johnson, Nixon, and even Eisenhower, faced the same problem, and dealt with it in different ways. Now Carter has come to the same fork in the road, and Washington, including his closest advisers in the White House and the Cabinet, are watching to see which road he will take.

There has always been this puzzle about Carter—whether the smile on his face or the chip on his shoulder would prevail. But his attempt to do both has not been working with the Congress or the press or his friends and advisers overseas, who still can't figure him out. So he is probably going to have to choose, or at least change the popular impression that he is "indecisive." Mr. Nice Guy one day, and Mr. Tough Guy the next.

Carter ran for the presidency on the proposition that what this country needed was a government as good as its people—fair, decent, unselfish, idealistic. If we could only get Henry Kissinger and "the Washington bureaucracy" out of the way, he suggested, then we could revive faith in our government, and cleanse the pollution of Vietnam and Watergate, and establish the republic once more as the political and moral leader and defender of the ideals of Western Civilization.

### Noble Objective

It was a noble objective, and nobody should minimize Jimmy Carter's faith in it, but he has discovered in the last 15 months that things are not all that simple: that the Democrats in the Congress do not follow the lead of a Democratic president; that there is very little party loyalty between elections (and maybe not even then); that big business and big labor, the blacks, the farmers, the allies in Europe, Israel and Latin America and Japan have their own special interests, lobbies, and that the Republicans, all 38 of them in the Senate, are proclaiming publicly that his foreign policy and his economic policy at home are not only not working but that the people of the United States are disappointed in his performance.

In other words, Carter is now up against considerable evidence that maybe his moral premise was wrong: that maybe the people were not all that generous and unselfish but that maybe they were greedy and self-concerned. This has been a bit of a struggle for Carter personally.

Confronted with all this opposition, he is now beginning to turn to the people for support, and this may not be a bad political judgment. Despite his decline in the popularity polls, he has more confidence with the people in general than with the politicians, the press, the universities, or the lobbies for special business, labor union, farmer or foreign interests.

### More Votes

The guess here is that he will pick up more votes in the end than he will lose by insisting on human rights abroad, and on fair legal and material fees at home. For the moment, the blacks, the farmers, the unions, the liberals, the editorial writers, etc., are all cutting him up, but he is probably in better shape with the people in general

than with the "elites" and the lobbyists.

Carter's trouble in the last 15 months is that he has been trying to satisfy all these conflicting interests, but he is discovering that there is a fundamental difference between how to win an election and how to govern after you win. This is where he is now, and he seems to be saying that amid all this confusion of parties and special interests, the thing to do and say is what he thinks, be faithful to himself, and leave all thoughts of a second term to the judgment of the people later on.

Obviously this means that he has to change his own approach to issues and politics. If he is going to serve "the general interest" and rely on the judgment of the people,

he cannot defend Bert Lance one day, and raise the minimum wage the next, proclaim "human rights" in the Soviet Union and South Africa and Rhodesia, and ignore them in South Korea, and the Philippines for strategic reasons.

### Dilemma

This is a fundamental political and philosophical dilemma for Jimmy Carter, even a theological question, which he hasn't yet resolved. He has been trying to play the game both ways, being very moral on one hand, and very clever and political on the other, but he is now trying to sort out these contradictions or compromises in his own mind, and come up with an answer that satisfies both his conscience and his ambitions.

## The Risks of Electronic Spying

By Daniel S. Greenberg

WASHINGTON—Zoom lenses and electronic listening devices in U.S. space satellites regularly collect extraordinarily detailed data from every part of the Soviet Union. And, though not happy about it, the Soviets nevertheless sit still for that long-range theft of secrets. Why, then, did they recently gun down a South Korean passenger plane that, by all accounts, innocently blundered over their territory near Murmansk?

A good place to look for the answer is in the plane's inadvertent involvement in the closest thing to war now going on between the two superpowers: deliberate border-area intrusions designed to provoke the other side into revealing its electronic capabilities. We do it to them, and they do it to us and our friends, all in the course of a free-wheeling electronics competition that is one of the fastest growing and most secret aspects of the arms race.

### Provoking

Shooting incidents in this cat-and-mouse game are extremely rare, since the intruders—unlike the errant passenger plane—usually scout away as soon as they have provoked the other side into activating, and thus revealing, its warning and defense systems. And the game goes on, spurred by the realization that an endless surge of new developments in electronics has become the centerpiece of military competition between the United States and the Soviet Union.

The value of being aware of the other side's electronic capabilities was devastatingly revealed in the opening phase of the 1973 Yom Kippur war, when electronic jamming devices aboard Israeli aircraft were unable to neutralize the radar guidance of the surface-to-air missile systems that the Soviets had supplied to the Arabs. Reports have it that the Israelis lost more than 100 aircraft before a rush shipment of newly devised U.S. jamming equipment enabled them to counter the missiles' guidance radar.

With that experience, plus similar events in the Vietnam war, deeply impressed on the minds of military planners, the urgency of sniffing out the other side's electronics, while advancing one's own, has been accorded the highest priority—just short of the point of risking direct military contact.

This competition has led to the development of an endless series of measures, followed by counter-measures, that, in turn, lead to counter-countermeasures, and so on. Thus, knowledge of the frequency on which a defensive radar operates permits the offense to generate a jamming signal that can "blind" the radar or feed it erroneous data as to location of the intruder. The jamming signal, however, is a giveaway that the defense can use for homing in on the missile—unless, of course, the radar guiding that missile is jammed by still another signal.

### Electronic Maze

The necessity for split-second moves in the race between signal and countersignal accounts for the fact that, immensely complex, though miniaturized, computers are becoming standard equipment on combat aircraft. Between takeoffs and landings, today's Red Barons

are mainly passengers in an airborne electronic maze.

Though increasingly versatile electronic equipment is being developed to permit instantaneous scanning and jamming of the other side's signals, great value is still put on "collecting" those signals so that they can be stored in a computer for swift recognition and response. Thus the value of provoking the other side into turning on its electronics so that eavesdropping recorders can carry them home for analysis.

### Survivability

As is usually the case with revolutionary technical developments of military value, the effects of the new electronics range far. With the United States generally regarded as well ahead of the Soviets in packing more electronic capability into less space, the Defense Department is pushing hard to restrict export of the underlying know-how. And to keep ahead, it is looking for ways to restore the close, university-based science link that it lost during the Vietnam war. One ironic concern is that the civilian electronics market now so far exceeds the military's relatively small and highly specialized needs that the military services aren't getting the attention they could formerly command.

Developments in military electronics also affect military planning and budgets far beyond the immediate costs and capabilities of the gear for jamming and counterjamming. A major element in the decision not to build the B-1 was the expectation that our aging force of B-52s, though far slower-moving than present-day interceptors, could be equipped with what amounts to electronic armor against Soviet defense forces. And though the Cruise missile is too small to carry any significant amount of jamming gear, its survivability is based on plans for electronics-laden aircraft to "jam" it through Soviet defenses.

Against this background of raging electronics competition, what's amazing about the Soviet response to the errant passenger plane is not that they shot it and forced it down. Rather, given their relative backwardness in electronics and in difference to nice-guy ratings, what's astonishing is that they let it lumber around the Murmansk skies for nearly two hours before they forced it down.

The electronic riches from that episode will keep U.S. analysts busy for some time.

## Middle East:

## 3 Actors Need Script

By Joseph Kraft

WASHINGTON—Imagine three actors in search of a script, and you have a good idea of what is going on in the Middle East these days. There is an abundance of speech, and not a little offstage noise and some expectant rustling among many audiences. But the action now is leading nowhere except (and I am not kidding) toward the supreme dream of players on the world stage—the Nobel Peace Prize.

The most accomplished of the actors by far is the Egyptian, who once in fact trod the boards for a living.

He initiated the present phase with the electrifying trip to Jerusalem. He followed that by meeting Prime Minister Menachem Begin at Jerusalem. Then came a sheer piece of stagecraft—a brazen in the negotiations for no apparent reason. That set up another superb scene—a visit to Washington and the charming of President Carter the Congress and the U.S. public.

### Net Effect

But Mr. Sadat lacks a sense of strategy. I feel for how to move from actions to objectives. In his speech to the National Press Club here he actually declared that he had gone to Jerusalem not to negotiate but to make peace—as if settlement was something that would happen, like the falling of the walls of Jericho after a trumpet had sounded. So the net effect of Sadat's action was to put the making of a settlement in the hands of Jimmy Carter.

Prime Minister Begin tended the same direction. To be sure, where Sadat is heavily shadowed, Begin casts himself as a figure in history play. He is the believer few who has left the ghetto and cringing for favors. As a Zionist prewar Poland, and as an underground figure in the Palestine British mandate, he was a fighter.

His response to Sadat's overtures was positive. He received him with great dignity. The offer he made Ismailia was—by Begin's standards, at least—an act of state manlike generosity. He not only relinquished to Egypt all Israel claims to the Sinai Desert, he made regarding the West Bank of the Jordan, what seemed to him an act of renunciation. He suspended for an indefinite period the claim to sovereignty over the West Bank. That in effect meant forever, and in time an Arab state will link to Jordan.

### Arbiter

But Begin also didn't know how to move from grand gesture to settlement. To dramatize his nobles he also turned to Washington, making Mr. Carter the arbiter of the whole drama.

I do not find Carter easy to understand, and for a long time have pondered the picture he has painted of a settlement in the Middle East. I come to the conclusion that what he sees in his mind's eye is a small room where he, Sadat and Begin sit together smiling shaking hands, making nice speeches and eventually—with suitable flourishes—setting their signature to a document labeled PEACE.

To break the deadlock Carter resorted to another stage device—an emissary with the mission of drawing up a statement of mutually acceptable principles. When that failed, the President went through the public act of turning a cold shoulder to Begin in Washington early last month. But when Begin came back last week, there were smiles and songs in the Rose Garden, and the appearance of harmony and progress.

### 'Flying Solo'

In fact, there is no road map getting from here to a settled Israeli Foreign Minister Moshe Dayan, in a television interview with Barbara Walters the other day, voiced in agonizing terms the need to move from abstract talk about "the wording of principles" to "concrete proposals" on the ground and in reality.

Fortunately there is still time. Though Sadat has very little support in his own country or the rest of the Arab world for continuing his peace initiative, he is still hampered in there. "Flying solo," as he is in there, he is in Cairo of long ago. A main reason is that he wants the peace initiative to be solid when the Nobel Prize is voted in October. So at least there are a few more months for somebody—presumably Secretary of State Cyrus Vance and Mr. Dayan—to come up with a script that will bring the three leading actors to a semi-happy ending that is at least still possible.



# Threatens Sanctions

## UN Warns S. Africa on Raid

Karlheinz Telch  
UNITED NATIONS, N.Y., May 7 (UPI)—The Security Council unanimously approved a resolution yesterday that condemned South Africa for its military raid Thursday into Angola, called for the withdrawal of the troops and implicitly warned that another attack could lead to sanctions.

The uncommon unanimity of the vote and the more than 20 speeches castigating the Pretoria regime demonstrated the isolation of South Africa. Its delegation did not ask to participate in the debate.

South Africa had called the strike a "limited operation" directed against guerrilla bases of the South-West African People's Organization (SWAPO), charging that they had been used for stepped-up "terrorist" attacks against the

neighboring territory of South-West Africa, which South Africa has ruled since 1920 under a League of Nations mandate. In 1966, the United Nations revoked the mandate and called on South Africa to end its "illegal" occupation of the territory, which the United Nations calls Namibia.

The council action was taken at an emergency weekend session summoned at the request of Angola, which charged that South Africa, contrary to its assertions that it had withdrawn its troops, was sending reinforcements.

### 504 Refugees Dead

Elisio de Figueiredo, Angola's chief delegate, also said Saturday that the South African attack had taken the lives of 504 refugees from South-West Africa who were camped in Angola, and had wounded 224.

The speedy council action was believed to reflect a desire on the part of Western members and black-ruled African nations to prevent the South African attack from upsetting the continuing effort to win acceptance of a Western plan for independence for South-West Africa.

Late last month South Africa accepted the plan, which was put forward by the five Western members of the Security Council—the United States, Britain, Canada, France and West Germany. SWAPO, however, has held back, demanding changes in the plan, which calls for a cease-fire in the guerrilla war, a phased withdrawal of South African troops and UN-supervised elections leading to independence by the end of the year.

Sam Nujoma, the president of the People's Organization, has said that he was prepared to meet with representatives of the five Western nations, but the South African attack is expected to stiffen his attitude. Among other changes, he has been demanding tighter restrictions on the 1,500 South African troops who would be permitted to remain in the territory under the Western plan but would be restricted to their bases.

### U.S. Criticizes Raid

The Western negotiators have scheduled further negotiations with Mr. Nujoma beginning tomorrow. A number of leading members of his group have come from Africa to attend the sessions.

James Leonard, the U.S. delegate, declared in the council that

the Pretoria government's acceptance of the Western plan did not give it a "license to massive violence."

Expressing dismay at the "senselessness" of the raid on Angola, he declared: "How is an already skeptical world to judge an action such as we have just witnessed on the eve of further and, we hope, decisive talks?"

The resolution approved yesterday was proposed jointly by seven members—Bolivia, Gabon, Nigeria, India, Kuwait, Mauritius, and Venezuela.

It says that, in the event of further violations of Angolan territory, the Security Council will meet again to "consider the adoption of more effective measures," as provided in Chapter 7 of the UN Charter. This chapter, concerning acts of aggression, provides for such punitive measures as the breaking of diplomatic relations or the ordering of trade sanctions.

## Denmark Vows To Compensate Cod Fishermen

COPENHAGEN, May 7 (AP)—Danish Premier Anker Joergensen told 3,000 demonstrating fishermen yesterday that they could expect some compensation for a substantial loss in their fishing rights in the Baltic.

But Mr. Joergensen did not specify whether the fishermen could expect an increase in their share of the cod quota in the Baltic or direct economic help from the state.

Consequently, the fishermen, with about 500 vessels, decided to stay moored at the Copenhagen waterfront where they have been holding a demonstration since Thursday. On Friday, the fishermen held a brief blockade against six Danish ports. The blockade was lifted after the government promised to talk to a delegation of fishermen.

Mr. Joergensen also said that the West German government has backed a Danish claim to call an extraordinary session of the Baltic Fishing Commission as soon as possible.

## U.S. Yachtsmen To Moor Again In Cuba's Ports

ORLANDO, Fla., May 7 (AP)—Several hundred Americans will sail into Cuban ports at the end of the week, the largest such contingent to visit the Communist-run island in nearly two decades.

The 300 to 350 boaters—yacht-club members, sport fishermen and others going along merely for fun—have been invited by the Cuban government, anxious for a renewal of the lucrative U.S. tourist business.

Vessels, ranging from sailboats and small sport boats to large, expensive yachts, will negotiate the 90-mile stretch from the Florida Keys in two or three flotillas beginning Friday.

They will be escorted part of the way by the U.S. Coast Guard. Cuban Navy ships will lead the way to a welcome in Cuban ports.



OATH OF ALLEGIANCE—A Swiss Guard, one of the Vatican's 18 new recruits, takes his oath in the centuries-honored tradition during ceremonies during the weekend.

## Muzorewa Delays Action In Rhodesia Council Rift

SALISBURY, Rhodesia, May 7 (AP)—Bishop Abel Muzorewa's political party deferred a decision today to withdraw from Rhodesia's multiracial coalition government, pending action by the executive council on a controversy over the firing of a black minister.

The United African National Council said, after a meeting, that its 70-member national executive will meet next Sunday to consider the government's steps to resolve a near rift in the four-man ruling executive council.

The UANC meeting was called to discuss pulling out of the interim government after the sacking of a minister of justice, Byron Hove, a Muzorewa appointee.

The UANC reiterated its support for Bishop Muzorewa and demanded Mr. Hove's reinstatement.

### A Condemnation

"The meeting condemned the attempt to bypass Bishop Muzorewa throughout the whole Hove issue," a statement said. "This is now fully substantiated that, while attempts were made to contact the other three members of the executive council, no attempt whatsoever was made to consult Bishop Abel Muzorewa."

Addressing a group of white farmers in Muku yesterday, Bishop Muzorewa implied that the letter dismissing Mr. Hove, that was published in a local newspaper under the name of the current executive council chairman, Chief Jeremiah Chirau, had been unilaterally sent out by a civil servant, not by the council.

The UANC executive expressed its concern that "it is not known who actually gave the word for the firing of Mr. Hove" and said that it was "perturbed by the fact that evi-

dence seems to indicate that civil servants played a direct political role in precipitating the crisis."

The UANC also condemned the "ganging up" against the bishop by other members of the executive council.

### Nkomo Accuses West

LUSAKA, Zambia, May 7 (AP)—Joshua Nkomo, co-leader of the Patriotic Front, has accused Western governments of "plotting to overthrow ruling governments in front-line states," in a bid to perpetuate oppression and colonialism in southern Africa.

Addressing students at the University of Zambia last night, Mr. Nkomo said that Western governments intend to use "sophisticated and craft methods in overthrowing ruling governments in the front-line states."

### High Stepping in N.Y.

NEW YORK, May 7 (AP)—Nearly 3,000 demonstrators, mostly teenagers, drank wine and smoked pot in Central Park yesterday after a 60-block march up Fifth Avenue to protest laws banning marijuana.

## Asks for Aid of All Nations

## Afghan Chief Describes 'Nonalignment'

By William Borders

KABUL, Afghanistan, May 7 (UPI)—The head of the new government said yesterday that he has no intention of moving the country into the orbit of the Soviet Union.

"We are not a satellite of anyone, as some say," said Premier Nur Mohammad Taraki, 61, who came to power in a coup d'etat nine days ago. "We are nonaligned and independent and no country will have justification to interfere in our internal affairs."

At a news conference, Mr. Taraki appealed for the friendship and aid of "all the world's nations, including the United States."

In Washington, the State Department said that it had informed the new Afghan government that it would maintain diplomatic relations.

### No Military Pact

Mr. Taraki said "we will not take part in any military pact" with the Soviet Union, Afghanistan's northern neighbor, or with any other country.

Although Mr. Taraki's political party, which he referred to as the People's Democratic party of Afghanistan, has been regarded as a pro-Moscow Communist party, he disputed suggestions that it is Communist, Marxist or part of any international movement.

"Ours is the party of all the people," he said. "Our main objective is to secure the welfare of the workers and the peasants right here in Afghanistan."

Security at the news conference was tight. Foreign reporters were

checked with metal detectors, and the Premier was preceded and followed into the conference room by armed guards, including one who stood directly behind him holding a pistol.

### Former Press Attache

Mr. Taraki, who was press attache at the Afghan Embassy in Washington in the mid-1950s, explained the overthrow of President Mohammad Daud, who was killed during the fighting here on April 28.

"He and some of his family members were destroyed" because they refused to surrender, Mr. Taraki said. He disputed estimates that thousands had been killed in the coup, saying that the figure was 72 or 73 killed.

He said that 20 to 25 officials of the Daud government, including a number of ministers, had been arrested, but that some had been released on the condition that they remain politically inactive.

"The intelligentsia is the main force of the country and every effort will be made to attract them," he said. "But we want to re-educate them in such a manner that they should think about the people, and not, as previously, just about themselves—to have a good house and a nice car, and yet other people die of hunger."

### 'Our Revolution'

Mr. Taraki described the change of government as "our revolution," pointing out that it had brought an end to the rule of the upper-class Mohammadzai clan, which had run

the country since the early 19th century.

"We are not aristocrats," he said. "We are not from the high families. We came out from among the people."

He said that the government, which has seized the property of the former ruling family, would carry out land reform and reduce consumer prices. He hinted at nationalizations, but conceded that there was little to nationalize in this underdeveloped nation.

Mr. Taraki asked that aid from the United States and the Soviet Union be continued. "Our relationship with all the countries will be based on the amount of their support to our government in political and economic terms," he said, specifically mentioning U.S. aid projects. "We have lots of problems and we appreciate very much those countries who give us aid without conditions."

He referred to Pakistan and Iran, two anti-Communist neighbors that have been distressed at the change in Afghanistan, as brothers, and reiterated his government's dedication to Islam, which is the common religion of all three countries.

He said that the ruling Revolutionary Council, of which he is chairman, has about 35 members, of whom only five or six are military officers. According to other sources, all its known members belong to the Khalq party, which means Masses. Mr. Taraki is secretary-general of the party, he said. It is presumably the same party that he referred to yesterday as the People's Democratic party.



Afghan Premier Nur Mohammed Taraki is flanked by guards at Kabul press conference.

### Dayan on London Stop

LONDON, May 7 (UPI)—Israeli Foreign Minister Moshe Dayan arrived today for a 36-hour stopover to meet Prime Minister James Callaghan and Foreign Secretary David Owen for talks on the Middle East before leaving for an official visit to Norway and other Scandinavian countries.

## Mistrial Declared for Physician In California Baby Murder Trial

SANTA ANA, Calif., May 7 (AP)—A mistrial has been declared in the trial of Dr. William Waddill on charges of murdering a baby after the jury reported that it was deadlocked 7 to 5, with the majority favoring acquittal.

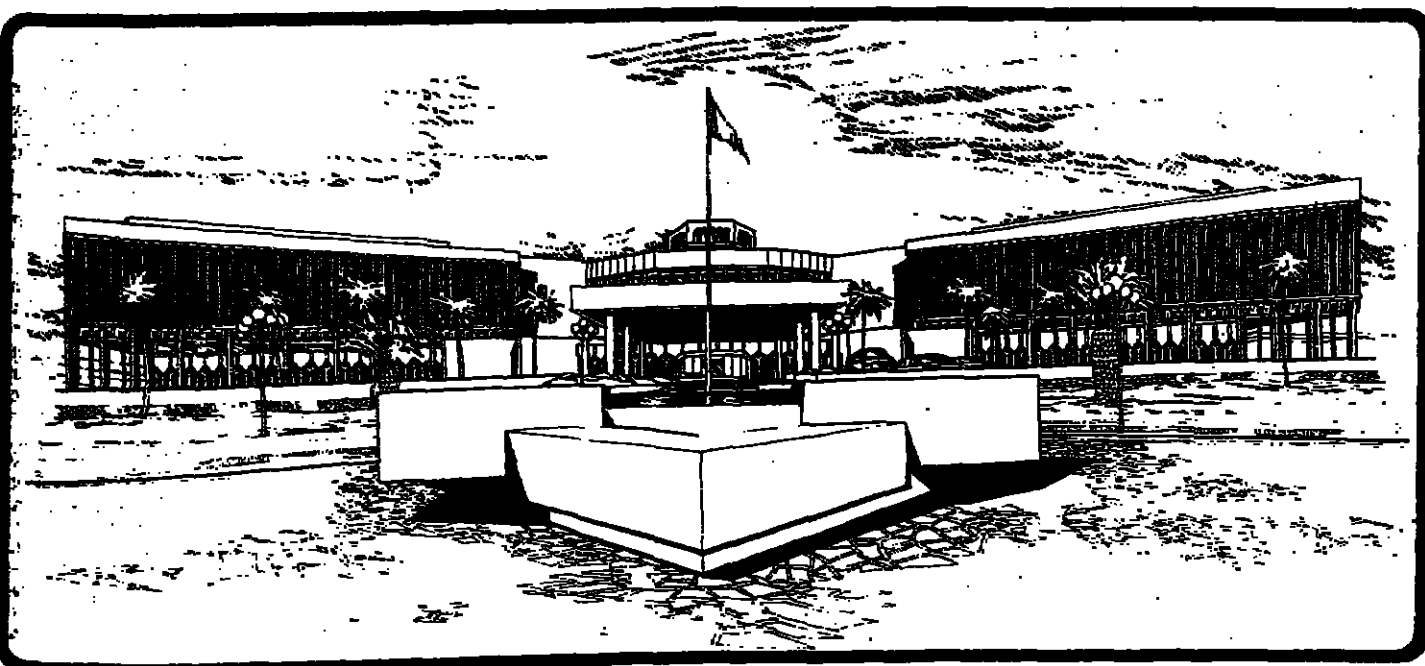
The judge declared the mistrial about two hours after the jury first reported it could not reach a decision. It had deliberated 11 days after a 14-week trial which drew the attention of anti-abortion activists.

Dr. Waddill, 42, an obstetrician, was accused of strangling a baby girl shortly after she survived a saline abortion.

The mother, 18, had told him she was unmarried and 22 weeks pregnant. On March 2 of last year, she was admitted to a hospital and Dr. Waddill injected a saline solution into her uterus to induce an abortion.

Instead of a 22-week-old fetus, she delivered a three-pound infant. Dr. Waddill, testifying in his own defense, said the baby was dying by the time he saw it at the hospital, and that death was from natural causes. One of his lawyers called the deadlock a moral victory, saying that many had assumed at the outset that Dr. Waddill would be convicted.

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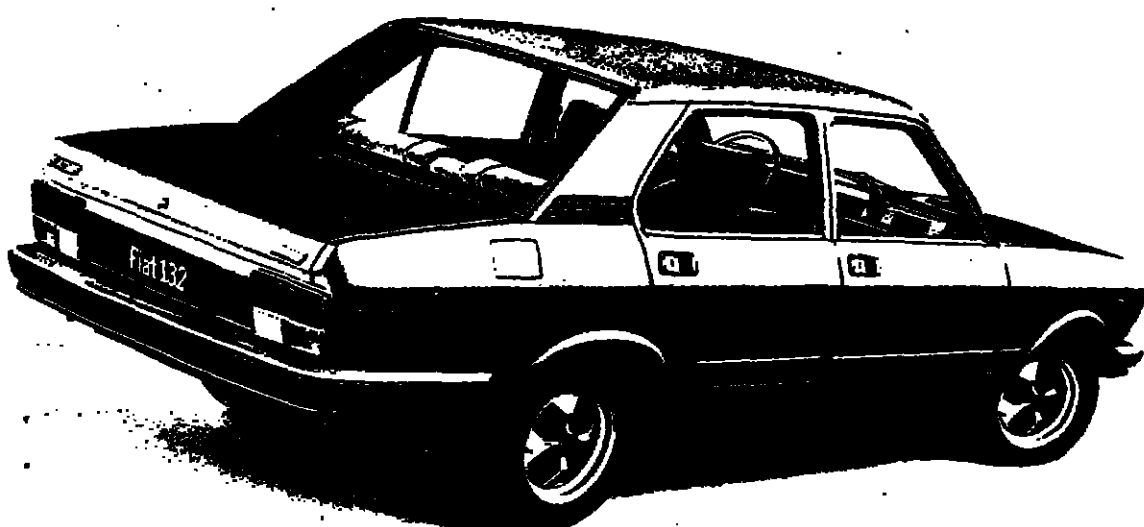
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INTERNATIONAL  
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FINANCE

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Euromarket

Rising Rates, Dollar's Firmness  
Drawing Investors Into Notes

By William Ellington

LONDON, May 7 (AP)—The Eurodollar note market is showing remarkable zest in face of rising short-term interest rates and the dollar's loss of upward momentum in the foreign exchange market. Eurodollar specialists say.

A \$125-million, seven-year note of triple-A-rated Ontario Hydro is being sold very fast even though many market participants were away from their desks for the entire week since both May Day and Ascension Day were holidays in most of Europe.

Volvo Plans to Recall 45,000 Cars in U.S.

WASHINGTON, May 7 (AP)—Volvo of America is recalling 45,000 of its 1975 model 240-series cars to correct a throttle defect, the National Highway Traffic Safety Administration says.

The agency said that the problem can result in a sticking accelerator pedal or a sudden increase in engine speed. Volvo will install an improved throttle valve return spring on the vehicles and will replace throttle cables made of a material which has experienced a short life span.

Pay Demand in Naples

NAPLES, May 5 (Reuters)—Workers at the three big municipal cemeteries here are refusing to handle flowers or turn on graveside lights to back demands for a 40,000-lire (\$47) monthly pay raise, officials said today.

U.S. Commodities

CHICAGO, May 7 (AP)—Negative economic news and the stock market's midweek tumble sparked a rally in precious metals futures last week, boosting gold and silver prices for the first time in more than a month.

Cold futures on New York City's Comex surged by \$3.40 to \$4.70 an ounce for the week, finishing at \$173.30 in the May contract, while silver advanced about 9 cents to \$5.06.3 in the spot delivery.

Copper contracts, however, declined one cent a pound. Although the setback in the Dow Jones average stimulated some selling in industrial metals futures, dealers were puzzled about the relative weakness.

Weather provided the key to grain markets at the Chicago Board of Trade. Rains in the Southwest benefited winter wheat crops, whittling these futures as much as 9 cents a bushel.

The sale of a million metric tons of corn to an unknown foreign buyer, probably the Soviet Union, also figured into a 5-cent increase in corn futures.

Soybean contracts rose 5 1/2 to 12 1/2 cents a bushel in mostly technical trading. Exceptionally large weekly soybean exports and continued good demand supported the advance.

New contract highs for live cattle futures were posted during several sessions at the Chicago Mercantile Exchange, resulting in net gains of 1.4 to 2.1 cents a pound for the week. The June delivery ended at \$5.56 a pound, more than a dollar higher than the price of a year ago.

Light receipts at major markets and continued good consumption spread the brisk demand in cattle futures.

By the end of the week, soybean deliveries were 5 1/2 to 12 1/2 cents higher than a week earlier, with May contracts finishing at \$7.27 1/2 a bushel. Wheat dropped 3 1/2 to 9 cents, May \$3.00; corn advanced 3 1/4 to 6 1/4, May \$2.54, and oats gained 1 1/4 to 5 1/4 cents, May \$1.41 1/4.

\$100-million, 10-year issue bearing 9 or 9.25 percent annually. However, McDonald's reportedly changed its mind not so much because of yield considerations but because of a streamlining of Securities and Exchange Commission procedures enabled it to almost immediately.

Still on offer in the Eurobond market is a two-part note of the Development Finance Corp. of New Zealand and a \$50-million, 12-year issue of Newfoundland bearing 9.25 percent.

The New Zealand offering comprises a \$20-million five-year issue bearing 8.125 percent and a \$30-million seven-year note bearing 8.375 percent. Both are expected to be offered at substantial discounts.

The U.S. Economic Scene  
Incompatible Trends Continue to Prevail

By Thomas E. Mullancy

NEW YORK, May 7 (NYT)—The amazing surge of the stock market on a tidal wave of buying interest and the rising bulge of inflationary pressures in the domestic economy — two incompatible trends that normally do not prevail simultaneously for very long — continued to co-exist last week and dominate the attention of the economic and political worlds here and abroad.

They stirred considerable conjecture on the question of how long these conflicting and baffling movements will last and on the nature of the forces that might eventually puncture the twin balloons and change their direction.

Again last week the stock market experienced a substantial, above-normal volume of trading for the third successive week and managed fairly well to withstand the buffeting influence of such negative elements as increasing inflation, tighter money and some major unresolved policy issues in Washington.

Investor Interest

With investor interest still dominated by institutions and foreigners, the stock market tended to accent the most positive recent development — the improved status of the dollar in the international currency markets — and the hope that the government would handle the inflation problem better than most private economists believe.

Toward the weekend, however, there seemed to be some disposition to take profits in stocks after the market's strong runup since mid-April, and in some about the likelihood of an effective anti-inflation strategy in the Carter administration.

The bond market, which was no-

table in its abstention from the stock market's recent euphoria, continued to reflect concern about rising inflationary pressures and the more restrictive credit policies being pursued by the Federal Reserve System in the inflation battle and in support of the dollar.

Interest rates have climbed, and some new benchmarks were reached during the last week. Long-term Treasury bonds attained their highest rates in four years, intermediate-term obligations got to their highest yields in three years, and there was a fairly sharp rise (10 to 15 basis points) in tax-exempt municipal issues.

In some cases the rates on the longer-term maturities are now close to their 1974 peaks, while those in the short-term area have been pushing up more slowly and are still well under their historic double-digit levels of four years ago. Despite its latest advance to 8 1/2 per cent, for instance, the prime lending rate of commercial banks is still some distance from the 12-per cent milestone reached in the memorable summer of 1974.

One factor that surely threw a

big dash of cold water onto Wall Street's inflation-warm perception of inflation prospects was Thursday's report showing that the Wholesale Price Index had jumped more than generally expected last month. The month's increase was at a big double-digit annual rate, chiefly because of the 1.9 per cent surge in the important food component.

That augurs sharply higher prices for consumers for some months ahead. And it certainly serves to heighten both public and private concern about the indicated course of inflation in the United States.

The recommended remedy is either a reduction in the coming year's federal spending or a scale-down in the administration's proposed \$25-billion tax reduction or a two-stage tax cut or some combination of all of them.

Incentives Tilt

Some sources have been urging a greater tilt toward investment incentives in the tax program as well as greater emphasis in trying to counteract previously approved tax increases, with less weight in the ultimate tax package for provisions that would promote greater consumption in the economy.

Business investment has been picking up this year, but it remains somewhat less than robust and is still lagging behind the pace the administration's economists have said would be necessary to keep the recovery going at a satisfactory tempo.

2 Ships Collide Off Sicily

MESSINA, Sicily, May 7 (AP)—A Spanish freighter and a Greek tanker collided in the Straits of Sicily Friday night, starting a fire aboard the Spanish ship. All those aboard the two vessels were reportedly safe, authorities said.

New York Stock Market

NEW YORK, May 7 (NYT)—The adage "what goes up must come down" held true for the stock market last week.

After an 80-point rally in the Dow Jones industrial average last month — its third-highest monthly point gain in the history of the blue-chip barometer — the Dow last week fell 8.23 points to \$29.09 as investors cashed in on some of their recent gains.

A moderate rally on Friday, however, succeeded in erasing some of the losses of the previous three sessions. On Friday the Dow rose 4.68 points after having declined almost 20 points in the previous three days. Monday it had advanced 7.01 points to \$44.33, its highest level in more than five months.

Friday's upswing was fueled mostly by the Labor Department's report that the unemployment rate last month had dropped to 6 per cent from the March rate of 6.2 per cent. Last month's rate was the lowest since October, 1974, when it stood at 5.9 per cent.

Trading last week on the New York Stock Exchange continued hectic. Turnover amounted to 196.22 million shares, compared with 203.10 million in the previous week. Most of the volume, as in the previous month, came from institutional and foreign investors.

The market's biggest loss last week came on Wednesday. The Dow fell 11.35 points. Some analysts called the sell-off a normal reaction to the recent gains.

Another negative factor was concern over rising interest rates, including a spreading rise in the prime interest rate to 8 1/4 percent from 8 percent. This is the rate the banks charge their most credit worthy corporate customers.

The Federal Reserve Board has taken recent action to tighten credit. Many investors fear that rising interest rates will hamper business expansion and housing construction.

Over-Counter Market

Sales in 100s	High	Low	Last	Chg	Net
AsdMtd 35	26 1/2	24 1/2	25 1/2	1/2	1/2
AsdMtd 36	15 1/2	15 1/2	15 1/2	0	0
AsdMtd 37	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 38	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 39	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 40	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 41	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 42	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 43	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 44	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 45	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 46	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 47	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 48	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 49	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 50	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 51	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 52	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 53	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 54	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 55	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 56	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 57	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 58	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 59	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 60	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 61	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 62	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 63	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 64	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 65	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 66	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 67	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 68	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 69	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 70	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 71	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 72	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 73	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 74	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 75	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 76	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 77	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 78	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 79	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 80	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 81	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 82	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 83	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 84	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 85	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 86	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 87	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 88	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 89	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 90	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 91	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 92	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 93	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 94	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 95	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 96	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 97	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 98	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 99	28 1/2	28 1/2	28 1/2	0	0
AsdMtd 100	28 1/2	28 1/2	28 1/2	0	0

Sales in					Net	Sales in					Net
100s High Low Last					Chg	100s High Low Last					Chg
Berkley 12	187	174	175	174 1/2	1/2	Bright 26	91	11	10 1/2	10 1/2	1/2
Berkley 13	420	410	410	410	0	Bright 27	11	10 1/2	10 1/2	1/2	
Berkley 14	84	84	84	84	0	Bright 28	11	10 1/2	10 1/2	1/2	
Berkley 15	1240	1240	1240	1240	0	Bright 29	11	10 1/2	10 1/2	1/2	
Berkley 16	977	977	977	977	0	Bright 30	11	10 1/2	10 1/2	1/2	
Berkley 17	228	228	228	228	0	Bright 31	11	10 1/2	10 1/2	1/2	
Berkley 18	228	228	228	228	0	Bright 32	11	10 1/2	10 1/2	1/2	
Berkley 19	228	228	228	228	0	Bright 33	11	10 1/2	10 1/2	1/2	
Berkley 20	228	228	228	228	0	Bright 34	11	10 1/2	10 1/2	1/2	
Berkley 21	228	228	228	228	0	Bright 35	11	10 1/2	10 1/2	1/2	
Berkley 22	228	228	228	228	0	Bright 36	11	10 1/2	10 1/2	1/2	
Berkley 23	228	228	228	228	0	Bright 37	11	10 1/2	10 1/2	1/2	
Berkley 24	228	228	228	228	0	Bright 38	11	10 1/2	10 1/2	1/2	
Berkley 25	228	228	228	228	0	Bright 39	11	10 1/2	10 1/2	1/2	
Berkley 26	228	228	228	228	0	Bright 40	11	10 1/2	10 1/2	1/2	
Berkley 27	228	228	228	228	0	Bright 41	11	10 1/2	10 1/2	1/2	
Berkley 28	228	228	228	228	0	Bright 42	11	10 1/2	10 1/2	1/2	
Berkley 29	228	228	228	228	0	Bright 43	11	10 1/2	10 1/2	1/2	
Berkley 30	228	228	228	228	0	Bright 44	11	10 1/2	10 1/2	1/2	
Berkley 31	228	228	228	228	0	Bright 45	11	10 1/2	10 1/2	1/2	
Berkley 32	228	228	228	228	0	Bright 46	11	10 1/2	10 1/2	1/2	
Berkley 33	228	228	228	228	0	Bright 47	11	10 1/2	10 1/2	1/2	
Berkley 34	228	228	228	228	0	Bright 48	11	10 1/2	10 1/2	1/2	
Berkley 35	228	228	228	228	0	Bright 49	11	10 1/2	10 1/2	1/2	
Berkley 36	228	228	228	228	0	Bright 50	11	10 1/2	10 1/2	1/2	
Berkley 37	228	228	228	228	0	Bright 51	11	10 1/2	10 1/2	1/2	
Berkley 38	228	228	228	228	0	Bright 52	11	10 1/2	10 1/2	1/2	
Berkley 39	228	228	228	228	0	Bright 53	11	10 1/2	10 1/2	1/2	
Berkley 40	228	228	228	228	0	Bright 54	11	10 1/2	10 1/2	1/2	
Berkley 41	228	228	228	228	0	Bright 55	11	10 1/2	10 1/2	1/2	
Berkley 42	228	228	228	228	0	Bright 56	11	10 1/2	10 1/2	1/2	
Berkley 43	228	228	228	228	0	Bright 57	11	10 1/2	10 1/2	1/2	
Berkley 44	228	228	228	228	0	Bright 58	11	10 1/2	10 1/2	1/2	
Berkley 45	228	228	228	228	0	Bright 59	11	10 1/2	10 1/2	1/2	
Berkley 46	228	228	228	228	0	Bright 60	11	10 1/2	10 1/2	1/2	
Berkley 47	228	228	228	228	0	Bright 61	11	10 1/2	10 1/2	1/2	
Berkley 48	228	228	228	228	0	Bright 62	11	10 1/2	10 1/2	1/2	
Berkley 49	228	228	228	228	0	Bright 63	11	10 1/2	10 1/2	1/2	
Berkley 50	228	228	228	228	0	Bright 64	11	10 1/2	10 1/2	1/2	
Berkley 51	228	228	228	228	0	Bright 65	11	10 1/2	10 1/2	1/2	
Berkley 52	228	228	228	228	0	Bright 66	11	10 1/2	10 1/2	1/2	
Berkley 53	228	228	228	228	0	Bright 67	11	10 1/2	10 1/2	1/2	
Berkley 54	228	228	228	228	0	Bright 68	11	10 1/2	10 1/2	1/2	
Berkley 55	228	228	228	228	0	Bright 69	11	10 1/2	10 1/2	1/2	
Berkley 56	228	228	228	228	0	Bright 70	11	10 1/2	10 1/2	1/2	
Berkley 57	228	228	228	228	0	Bright 71	11	10 1/2	10 1/2	1/2	
Berkley 58	228	228	228	228	0	Bright 72	11	10 1/2	10 1/2	1/2	
Berkley 59	228	228	228	228	0	Bright 73	11	10 1/2	10 1/2	1/2	
Berkley 60	228	228	228	228	0	Bright 74	11	10 1/2	10 1/2	1/2	
Berkley 61	228	228	228	228	0	Bright 75	11	10 1/2	10 1/2	1/2	
Berkley 62	228	228	228	228	0	Bright 76	11	10 1/2	10 1/2	1/2	
Berkley 63	228	228	228	228	0	Bright 77	11	10 1/2	10 1/2	1/2	
Berkley 64	228	228	228	228	0	Bright 78	11	10 1/2	10 1/2	1/2	
Berkley 65	228	228	228	228	0	Bright 79	11	10 1/2	10 1/2	1/2	
Berkley 66	228	228	228	228	0	Bright 80	11	10 1/2	10 1/2	1/2	
Berkley 67	228	228	228	228	0	Bright 81	11	10 1/2	10 1/2	1/2	
Berkley 68	228	228	228	228	0	Bright 82	11	10 1/2	10 1/2	1/2	
Berkley 69	228	228	228	228	0	Bright 83	11	10 1/2	10 1/2	1/2	
Berkley 70	228	228	228	228	0	Bright 84	11	10 1/2	10 1/2	1/2	
Berkley 71	228	228	228	228	0	Bright 85	11	10 1/2	10 1/2	1/2	
Berkley 72	228	228	228	228	0	Bright 86	11	10 1/2	10 1/2	1/2	
Berkley 73	228	228	228	228	0	Bright 87	11	10 1/2	10 1/2	1/2	
Berkley 74	228	228	228	228	0	Bright 88	11	10 1/2	10 1/2	1/2	
Berkley 75	228	228	228	228	0	Bright 89	11	10 1/2	10 1/2	1/2	
Berkley 76	228	228	228	228	0	Bright 90	11	10 1/2	10 1/2	1/2	
Berkley 77	228	228	228	228	0	Bright 91	11	10 1/2	10 1/2	1/2	
Berkley 78	228	228	228	228	0	Bright 92	11	10 1/2	10 1/2	1/2	
Berkley 79	228	228	228	228	0	Bright 93	11	10 1/2	10 1/2	1/2	
Berkley 80	228	228	228	228	0	Bright 94	11	10 1/2	10 1/2	1/2	
Berkley 81	228	228	228	228	0	Bright 95	11	10 1/2	10 1/2	1/2	
Berkley 82	228	228	228	228	0	Bright 96	11	10 1/2	10 1/2	1/2	
Berkley 83	228	228	228	228	0	Bright 97	11	10 1/2	10 1/2	1/2	
Berkley 84	228	228	228	228	0	Bright 98	11	10 1/2	10 1/2	1/2	
Berkley 85	228	228	228	228	0	Bright 99	11	10 1/2	10 1/2	1/2	
Berkley 86	228	228	228	228	0	Bright 100	11	10 1/2	10 1/2	1/2	
Berkley 87	228	228	228	228	0	Bright 101	11	10 1/2	10 1/2	1/2	
Berkley 88	228	228	228	228	0	Bright 102	11	10 1/2	10 1/2	1/2	
Berkley 89	228	228	228	228	0	Bright 103	11	10 1/2	10 1/2	1/2	
Berkley 90	228	228	228	228	0	Bright 104	11	10 1/2	10 1/2	1/2	
Berkley 91	228	228	228	228	0	Bright 105	11	10 1/2	10 1/2	1/2	
Berkley 92	228	228	228	228	0	Bright 106	11	10 1/2	10 1/2	1/2	
Berkley 93	228	228	228	228	0	Bright 107	11	10 1/2	10 1/2	1/2	
Berkley 94	228	228	228	228	0	Bright 108	11	10 1/2	10 1/2	1/2	
Berkley 95	228	228	228	228	0	Bright 109	11	10 1/2	10 1/2	1/2	
Berkley 96	228	228	228	228	0	Bright 110	11	10 1/2	10 1/2	1/2	
Berkley 97	228	228	228	228	0	Bright 111	11	10 1/2	10 1/2	1/2	
Berkley 98	228	228	228	228	0	Bright 112	11	10 1/2	10 1/2	1/2	
Berkley 99	228	228	228	228	0	Bright 113	11	10 1/2	10 1/2	1/2	
Berkley 100	228	228	228	228	0	Bright 114	11	10 1/2	10 1/2	1/2	
Berkley 101	228	228	228	228	0	Bright 115	11	10 1/2	10 1/2	1/2	
Berkley 102	228	228	228	228	0	Bright 116	11	10 1/2	10 1/2	1/2	
Berkley 103	228	228	228	228	0	Bright 117	11	10 1/2	10 1/2	1/2	
Berkley 104	228	228	228	228	0	Bright 118	11	10 1/2	10 1/2	1/2	
Berkley 105	228	228	228	228	0	Bright 119	11	10 1/2	10 1/2	1/2	
Berkley 106	228	228	228	228	0	Bright 120	11	10 1/2	10 1/2	1/2	
Berkley 107	228	228	228	228	0	Bright 121	11	10 1/2	10 1/2	1/2	
Berkley 108	228	228	228	228	0	Bright 122	11	10 1/2	10 1/2	1/2	
Berkley 109	228	228	228	228	0	Bright 123	11	10 1/2	10 1/2	1/2	
Berkley 110	228	228	228	228	0	Bright 124	11	10 1/2	10 1/2	1/2	
Berkley 111	228	228	228	228	0	Bright 125	11	10 1/2	10 1/2	1/2	
Berkley 112	228	228	228	228	0	Bright 126	11	10 1/2	10 1/2	1/2	
Berkley 113	228	228	228	228	0	Bright 127	11	10 1/2	10 1/2	1/2	
Berkley 114	228	228	228	228	0	Bright 128	11	10 1/2	10 1/2	1/2	
Berkley 115	228	228	228	228	0	Bright 129	11	10 1/2	10 1/2	1/2	
Berkley 116	228	228	228	228	0	Bright 130	11	10 1/2	10 1/2	1/2	
Berkley 117	228	228	228	228	0	Bright 131	11	10 1/2	10 1/2	1/2	
Berkley 118	228	228	228	228	0	Bright 132	11	10 1/2	10 1/2	1/2	
Berkley 119	228	228	228	228	0	Bright 133	11	10 1/2	10 1/2	1/2	
Berkley 120	228	228	228	228	0	Bright 134	11	10 1/2	10 1/2	1/2	
Berkley 121	228	228	228	228	0	Bright 135	11	10 1/2	10 1/2	1/2	
Berkley 122	228	228	228	228	0	Bright 136	11	10 1/2	10 1/2	1/2	
Berkley 123	228	228	228	228	0	Bright 137	11	10 1/2	10 1/2	1/2	
Berkley 124	228	228	228	228	0	Bright 138	11	10 1/2	10 1/2	1/2	
Berkley 125	228	228	228	228	0	Bright 139	11	10 1/2	10 1/2	1/2	
Berkley 126	228	228	228	228	0	Bright 140	11	10 1/2	10 1/2	1/2	
Berkley 127	228	228	228	228	0	Bright 141	11	10 1/2	10 1/2	1/2	
Berkley 128	228	228	228	228	0	Bright 142	11	10 1/2	10 1/2	1/2	
Berkley 129	228	228	228	228	0	Bright 143	11	10 1/2	10 1/2	1/2	
Berkley 130	228	228	228	228	0	Bright 144	11	10 1/2	10 1/2	1/2	
Berkley 131	228	228	228	228	0	Bright 145	11	10 1/2	10 1/2	1/2	
Berkley 132	228	228	228	228	0	Bright 146	11	10 1/2	10 1/2	1/2	
Berkley 133	228	228	228	228	0	Bright 147	11	10 1/2	10 1/2	1/2	
Berkley 134	228	228	228	228	0	Bright 148	11	10 1/2	10 1/2	1/2	
Berkley 135	228	228	228	228	0	Bright 149	11	10 1/2	10 1/2	1/2	
Berkley 136	228	228	228	228							



## Over-Counter Market

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Elysées Rond Point is one of the most prestigious multi-million pound commercial developments in Europe and is designed to the most exacting standards of discerning international clients.

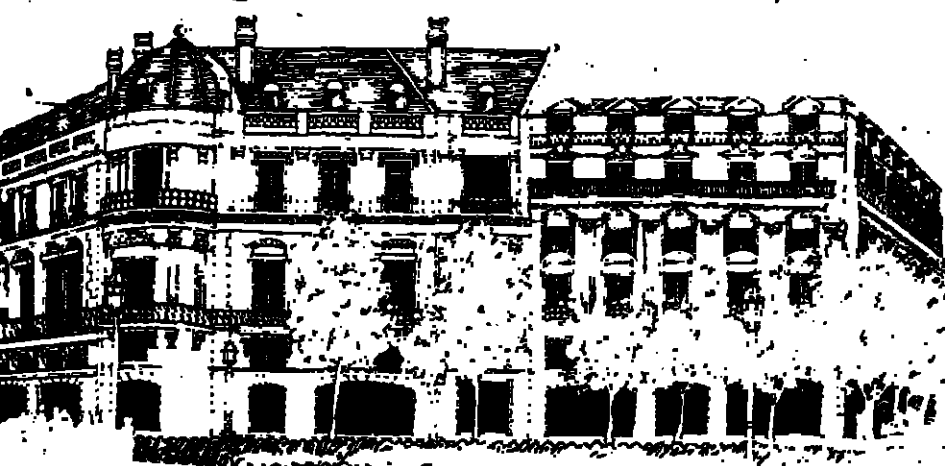
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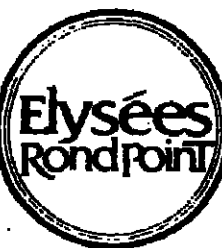
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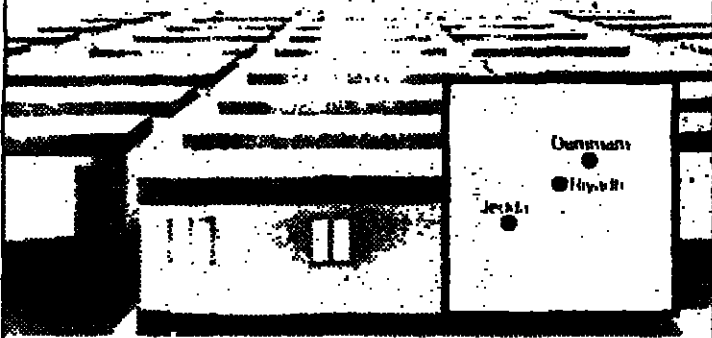
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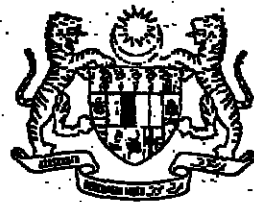
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of

# MALAYSIA

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(Redemption Group No. 2  
fell due on June 15, 1977)*

As provided in the Terms and Conditions Redemption Group No. 1, amounting to Dfls. 12,500,000.--, has been drawn for redemption on June 15, 1978 and consequently the Note which bears number 1 and all Notes bearing a number which is 4, or a multiple of 4, plus 1 are payable as from

June 15, 1978

at  
**Algemene Bank Nederland N.V.**  
 (Central Paying Agent)  
**Amsterdam-Rotterdam Bank N.V.**  
**Bank Mees & Hope NV**  
**Pierson, Hielding & Pierson N.V.**  
*in Amsterdam;*  
**N. M. Rothschild & Sons, Limited**  
*in London;*  
**Kreditbank S.A. Luxembourgoise**  
*in Luxembourg;*  
**Algemene Bank Nederland (Genève) S.A.**  
*in Geneva;*  
**Algemene Bank Nederland in der Schweiz AG**  
*in Zurich.*

*April 26, 1978*



## Over-Counter Market

### Over-Counter Market

Sales in 100s	High	Low	Set	Net
Alcan 30	130	128	126	126
Alcoa 30	124	122	120	120
Alumina 30	125	123	121	121
Aluminum 30	125	123	121	121
Aluminum 30	125	123	121	121
Aluminum 30	125	123	121	121
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Aluminum 30	125	123	121	121
Aluminum 30	125	123	121	121
Aluminum 30	125	123	121	121
Aluminum 30	125	123	121	121

### Currency Rates

By reading across this table of Friday's closing inter bank foreign exchange rates, one can find the value of the major currencies in the national currencies of each of the following financial centers. These rates do not take into account bank service charges.

	U.S.	£	DM	FF	Fr.	It.	Sc.	Y.	DKr.
American	1.00	0.72	3.36	6.55	2.00	1.36	13.76	16.48	4.83
London	0.72	1.00	4.76	9.36	2.48	1.04	16.48	19.36	5.48
Paris	0.28	0.26	1.00	1.76	0.48	0.76	16.48	19.36	5.48
Frankfurt	0.28	0.26	1.00	1.76	0.48	0.76	16.48	19.36	5.48
Switzerland	0.28	0.26	1.00	1.76	0.48	0.76	16.48	19.36	5.48

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## Currency Rates

By reading across this table of Friday's closing inter bank foreign exchange rates, one can find the value of the major currencies in the national currencies of each of the following financial centres. These rates do not take into account bank commission charges.

	£	DM	FF	¥	US\$	BF franc	Sfrs.	Dong
Amsterdam	2.21	4.95	160.87	36.10	1.3544	133.33	10.3635	39.11
Buenos Aires	2.21	4.95	160.87	36.10	1.3544	133.33	10.3635	39.11
Frankfurt	2.21	4.95	160.87	36.10	1.3544	133.33	10.3635	39.11
London	1.0000	2.00	66.67	14.63	0.7660	75.00	6.0341	2.25
Paris	2.21	4.95	160.87	36.10	1.3544	133.33	10.3635	39.11
Porto	2.21	4.95	160.87	36.10	1.3544	133.33	10.3635	39.11
Stockholm	2.21	4.95	160.87	36.10	1.3544	133.33	10.3635	39.11
Zurich	2.21	4.95	160.87	36.10	1.3544	133.33	10.3635	39.11

Following are Dollar values as quoted on the London foreign exchange market. Danish Krone 1.48, Hong Kong 7.75, Japanese Yen 100.35, New Zealand 2.00, Singapore 2.00, South Africa 2.00, Sweden 2.00, Switzerland 2.00, Taiwan 2.00, Thailand 2.00, West Germany 2.00, Yugoslavia 2.00.

Source: Reuters, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477

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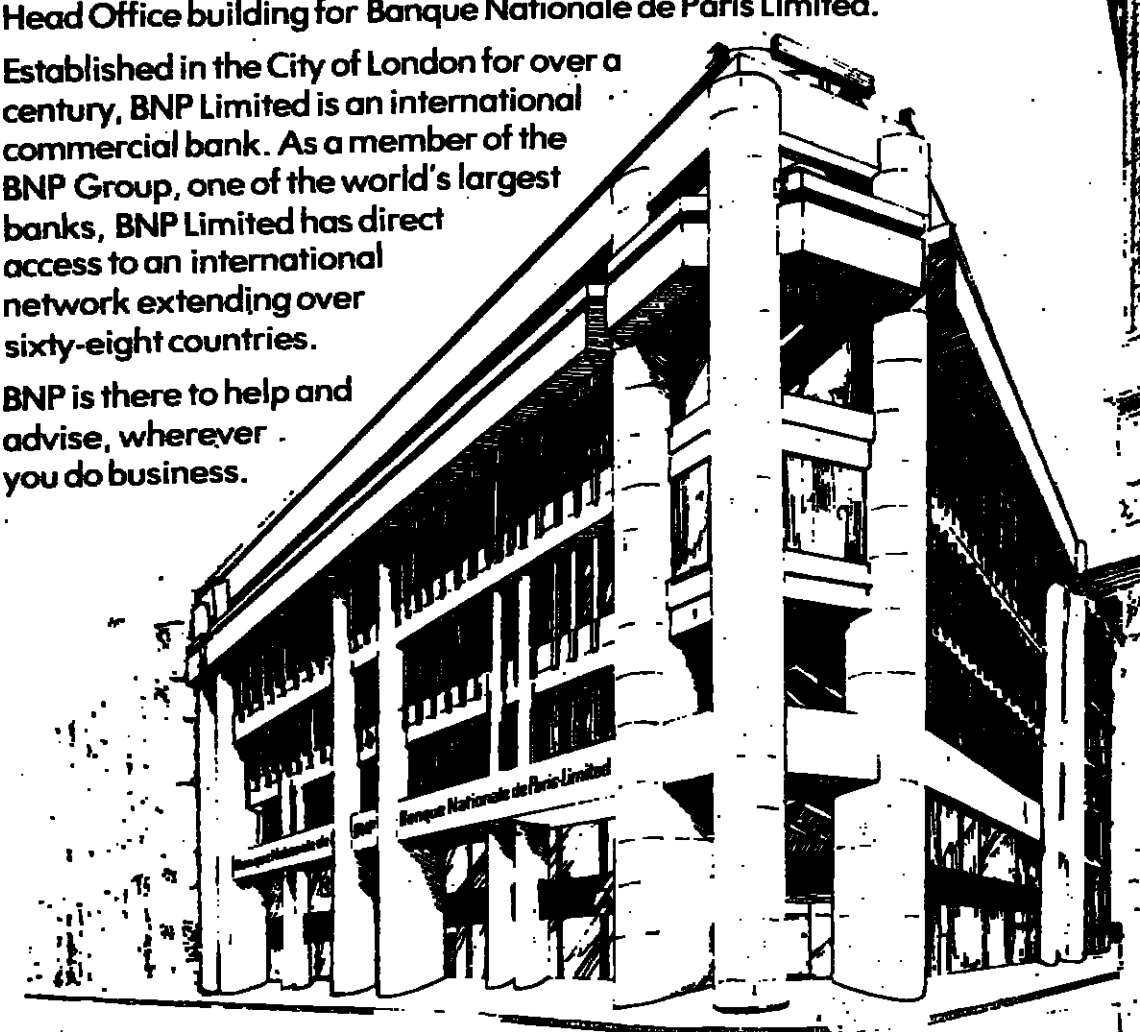
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GENOSSENSCHAFTLICHE ZENTRALBANK A G	HAMBROS BANK Limited		FIRST CHICAGO ASIA MERCHANT BANK		
GROUPEMENT DES BANQUIERS PRIVES GENEVOIS	KIDDER PEARSON INTERNATIONAL Limited		GENZENTRAL UND BANK DER OSTERREICHISCHEN SPARKASSEN Aktiengesellschaft		
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## Seen as a Major Breakthrough

## China Reports Finding Oil, Gas Under Sea

FOX BUTTERFIELD  
HONG KONG, May 7 (NYT)—China has discovered oil and natural gas in the South China Sea and plans to turn the deposits into a major new oilfield, a provincial radio broadcast has disclosed.

The discovery, which represents a major breakthrough in China's efforts to exploit its large offshore oil potential, coincides with a sizable increase in Chinese purchases of United States offshore oil technology. In a few months Peking has sought from U. S. companies two fixed platforms for offshore oil production and a movable jack-up drilling rig for exploration. There also are reports that the Chinese are negotiating for a large integrated production and logistics system that could supply an entire offshore oilfield.

The report of the new discovery was made by Kwangtung, the province that borders Hong Kong, gave details about the finds and did not reveal where they had been made.

**Hainan drilling 'promising'**  
But oil industry sources and analysts here say that China is known to have drilled in several locations off its southern coast, including the Gulf of Tonkin, around Hainan Island and in the Pearl River estuary

below Canton. There have been unconfirmed reports for several months that China had struck oil in the Gulf of Tonkin and off the northeast and the southwest coasts of Hainan, with the Hainan finds being the most promising.

Last month a senior Kwangtung official told a provincial Communist Party meeting that "a fairly large oilfield" would be built in the South China Sea before 1985.

Estimates of China's offshore oil potential vary widely. A 1977 study by the U. S. Central Intelligence Agency calculated that China's recoverable offshore reserves at 40 billion barrels, about equal to its reserves on land. Some other estimates are higher.

## Reserves Developed Slowly

Despite the size of its offshore reserves, however, China has been slow to develop them, in part because of the late Mao Tse-tung's insistence on self-reliance, which has limited Peking's acquisition of advanced Western technology. Until now the only oil China produced offshore is a relatively small amount in the shallow waters of the Bohai Gulf near Tientsin. The field there is an extension of the onshore Takung oilfield. China's third largest.

Analysts believe China must now move to exploit its offshore resources, if it wants to rapidly in-

crease its oil production and earn the large amounts of foreign exchange needed to pay for Peking's ambitious modernization program. Oil already plays a critical role in China's foreign trade, as one of the few items it can sell abroad in bulk. But with China's oilfields on land too far away from ports and needing expensive pipelines to get the oil to tankers, the offshore reserves have become an attractive alternative.

China's oil production last year was 92 million tons, or 1.84 million barrels a day, placing it in 10th place among the world's leading oil producers along with Indonesia. Only 10 million tons was exported, mostly to Japan, although oil earned 16 per cent of China's foreign exchange.

Jayson Mugar, the Hong Kong representative for the Union Bank of California who follows Chinese oil developments, estimates that Peking could produce 40 million tons annually by 1985 from its offshore reserves alone and could increase exports to over 40 million tons. That would bring in a third of China's increased foreign exchange earnings at the time. Mugar reckons.

**Stepped-Up Exports?**  
Peking's stepped-up purchases of U. S. oil exploration and production

equipment appear to be part of an effort by Peking to accelerate the growth of its oil industry in line with the idea of exporting more oil to pay for increased imports of Western technology and plants.

In April, Peking bought the jack-up rig from a Singapore subsidiary of Bethlehem Steel. No price was disclosed but it is thought to have been \$25 million. The specifications include an ability to operate in water to 250 feet, and its three legs are fitted to a steel mat rather than resting directly on the ocean floor. This allows it to operate on soft seabeds and has led to speculation it may be used in the Gulf of Tonkin.

The two production platforms were bought from National Supply Co., a division of Houston-based Arco Steel. Including associated onshore equipment, the platforms cost \$30 million. Oil industry sources say China plans to use them in the Bohai Gulf where it already has some of its own fixed platforms.

The sources say Peking is also talking with another Texas company about a package that could include from five to 20 fixed platforms, pipelines and loading systems for tankers. The idea would be to give Peking a fully integrated production system that could be put to work immediately.



## World Cup Preview:

## Brazil Seeks 4th Crown

RIO DE JANEIRO, (UPI)—Brazil's chances of winning the World Cup for an unprecedented fourth time depend on its success in bridging the past and the present.

A gap was created when Pelé, Tostao, and Gerson, the "blessed triangle," left the international stage after helping Brazil win the trophy a record third time in 1970.

The goal went out of Brazilian soccer and it was a more physical side that made the trip to West Germany in 1974 and did surprisingly well to finish fourth.

Team manager Claudio Coutinho hopes he has found the right Brazilian blend, marrying the native individual skills with European discipline.

## Relaxed Style

Left to his own devices, a Brazilian player's attitude leans more toward the soccer equivalent of basketball's Harlem Globetrotters than the regimented "total soccer" style of the Europeans. "It's a simple desire to play with the ball, to put on an individual show even if there's no crowd watching," a Rio sportswriter said.

The Brazilian player is individually talented and Coutinho regards this talent as constant, but realizes this showmanship has dangers that must be balanced.

Coutinho, considered one of the great theorists in Brazilian soccer, is stressing the value of the European-style versatility players able to fill different positions, tackle hard and play to the limit for 90 minutes.

Until they began their tour of Europe, the Brazilians had lost only

once in 39 matches since mid-1975, winning 29 and drawing nine. But drawn home matches against England, West Germany, Yugoslavia and France last year have upset fans, who are wondering whether Brazil will be able to keep up with the fast pace of total soccer.

Brazil opened its World Cup qualifying campaign against Colombia last February and the disappointing 1-1 result led to Oswaldo Brandão resigning as coach in favor of Coutinho.

## Proper Medicine

Coutinho's more European-style soccer seemed to be the right medicine, turning Brazil around for a 6-0 rout against Colombia in the return match. Brazil was less impressive against Paraguay, however, squeaking by 1-0 at home and drawing 1-1 away for just enough points to reach the final qualifying round in Cali.

A 1-0 victory against Peru and an 8-0 bonanza against a weak Bolivian squad in the Cali playoffs pushed Brazil through to the finals. Midfielder Roberto Rivellino, only survivor of the triumphant 1970 team, is the man Coutinho is relying on to make the new style work. Coutinho holds the 31-year-old team captain up as an example to his other players because of his maturity and ability to adapt to a more disciplined style of soccer.

Rivellino, an expert with the "banana" kick, has played in 105 internationals for Brazil and needs only four more caps to break the world record of 108 set by England's Bobby Moore.

## Major League Standings

NATIONAL LEAGUE EAST					AMERICAN LEAGUE EAST				
	W	L	Pct.	GB		W	L	Pct.	GB
Philadelphia	12	8	.599	—	Detroit	16	6	.727	—
Montreal	12	9	.571	1 1/2	Boston	16	10	.615	2
Chicago	12	12	.500	2 1/2	New York	14	10	.583	3
Pittsburgh	11	12	.479	3	Milwaukee	12	12	.500	5
St. Louis	11	14	.438	4	Cleveland	10	13	.435	6 1/2
New York	11	16	.408	5	Baltimore	10	14	.417	7
WEST					WEST				
Los Angeles	16	9	.640	—	Toronto	8	17	.320	9 1/2
Cincinnati	15	10	.600	1	Oakland	9	6	.600	—
San Francisco	13	11	.545	2 1/2	Baltimore	16	9	.640	3
San Diego	10	14	.417	5 1/2	Kansas City	14	10	.583	4 1/2
Houston	10	15	.400	6	Texas	11	11	.500	6 1/2
Atlanta	10	15	.400	6	Seattle	10	20	.333	11 1/2
Saturday's Games					Saturday's Games				
San Francisco 2, Chicago 1, 12 Innings					Boston 4-3, Chicago 4-0				
Pittsburgh 3, Los Angeles 2					Texas 9, New York 5				
Cincinnati 6, Montreal 2					Milwaukee 4, Kansas City 3				
Atlanta 2, Houston 1, 10 Innings					Detroit 4, Oakland 0				
Philadelphia 6, New York 2					Minnesota 6, Baltimore 7				
St. Louis 1, San Diego 0					California 2, Cleveland 2				
Friday's Games					Seattle 6, Toronto 1				
San Francisco at Chicago, p.m., rain					Friday's Games				
Los Angeles at Houston 2					Chicago 6, Boston, p.m., rain				
Montreal 4, Cincinnati 3					Baltimore 2, Minnesota 1				
Philadelphia 9, New York 4					New York 2, Texas 2				
Los Angeles 7, Pittsburgh 2					Milwaukee 6, Kansas City 0				
San Diego 2, St. Louis 1					Oakland 5, Detroit 1				
Saturday's Games					California 2, Cleveland 0				
Montreal (Twitshell 1-2 and Grimsley 5-0) at Cincinnati (Mazou 6-0 and Sarmiento 1-1), 2					Seattle 6, Toronto 1				
Cincinnati (Mazou 6-0 and Sarmiento 1-1), 2					Sunday's Games				
New York (Swain 1-0) at Philadelphia (Lersch 1-3)					Minnesota (Serun 2-0) at Baltimore (McGregor 1-3)				
Los Angeles (John 4-0) at Pittsburgh (Rooker 1-1)					Texas (Ellis 2-1) at New York (Seattle 1-0)				
San Francisco (Montefusco 1-2) at Chicago (Burke 2-1)					Chicago (Wood 2-0) at Kansas City (Bulwer 1-0)				
San Diego (Perry 2-0) at St. Louis (Forsch 4-2)					Kansas City (Gale 1-0) at Milwaukee (Augustine 1-3)				
Houston (Lemonette 2-0) at Atlanta (Rutven 1-2)					Cleveland (Wright 2-1) at Chicago (Aase 1-1)				
					Detroit (Brazner 2-0) at Oakland (Knepp 2-0)				
					Toronto (Garvin 2-1) at Seattle (Folke 2-1)				







## Rose Singles for 3,000th Hit

CINCINNATI, May 7 (AP)—Cincinnati's Pete Rose has become the 13th player in major league history to reach the 3,000-hit mark.

It was the second hit in the game against Montreal on Friday for the 37-year-old Rose, in his 16th season. He got No. 2,999 in the third inning on a high chopper back to the mound that Rogers was unable to field cleanly. In the fifth, the switch-hitting Rose, batting left-

handed, lined a 1-0 pitch over the shortstop into left field for the milestone hit.

The crowd gave Rose, a Cincinnati native, a standing ovation for five full minutes and his teammates on the Reds left the dugout to congratulate him at first base. He was officially presented the milestone ball by Montreal first baseman Tony Perez, a former teammate

and long-time friend who broke into pro ball with Rose in 1960.

Photographers poured from the dugout pavilion to record the scene as Perez congratulated Rose.

After Rose's milestone hit, his family was besieged by photographers and well-wishers in their seats behind home plate. Standing at first base, Rose waved several times to the crowd, which had been standing when he left the dugout to

make his third appearance at the plate. The crowd continued to applaud even after the next batter, Ken Griffey, approached the plate and Griffey waited until the ovation died down before preparing to bat.

The Reds were trailing 3-1 when Rose recorded his 3,000th hit. He failed to hit his first time at bat.

The all-time hit list is headed by Ty Cobb, who has 4,191. Others who reached 3,000 were Hank Aaron, 3,771; Stan Musial, 3,630; Tris Speaker, 3,515; Honus Wagner, 3,430; Eddie Collins, 3,311; Willie Mays, 3,283; Nap Lajoie, 3,251; Paul Waner, 3,152; and Cap Anson, 3,081.

Rose came into the season needing just 34 hits to reach the 3,000 plateau. After last season, during which he batted .314 and had 204 hits, he totaled 2,966 lifetime.

Rose broke into the majors with Cincinnati in 1963 as a second baseman after playing one year each with three minor league clubs: Geneva, N.Y., Tampa, Fla., and Macon, Ga.

Rose, whose uncle was a scout for the Reds, was the league's Rookie of the Year in 1963 and won his first NL batting title in 1968 with a .335 average. He won the batting crown two more times, hitting a career-high .348 in 1969 and .338 in 1973.

He has the distinction of getting the last hit at old Crosley Field here—a triple off San Francisco's Juan Marichal—and the first hit at the new Riverfront Stadium—a single off Pat Jarvis of Atlanta—both in 1970.

Rose reached the 1,000-hit plateau in 1968 with a single off Dick Selma of the New York Mets at Crosley Field. He got his 2,000th hit in 1973 with a single off San Francisco's Ron Bryant at Candlestick Park and No. 2,500 came at Riverfront in 1975 against Bruce Kison of Pittsburgh.

Rose passed Frankie Frisch as the all-time leader among switch-hitters in 1977 with his 2,881st hit in St. Louis.



Pete Rose takes off for first on 3,000th hit.

## Brewers Rally to Defeat Royals, 4-3

MILWAUKEE, May 7 (UPI)—The Brewers overcame a 3-0 deficit in the ninth inning on Sal Bando's three-run homer and a bases-loaded walk to Gorman Thomas yesterday to hand the Kansas City Royals their fifth straight loss, 4-3.

Bando's third home run of the season tied the game after Kansas City starter Paul Splittorff allowed a single to Paul Molitor and a walk to Dick Davis. The home run came off Doug Bird, who then walked home and gave up singles to Sixto Lezcano and Cecil Cooper.

At Hrabosky replaced Bird and walked Thomas on a 3-1 pitch, making Brewers' starter Larry Sorensen, 3-2, the winner. Darrell Porter's fourth home run of the season, his third in the last five games, and given Kansas City a 3-0 lead in the seventh. The Royals had scored a run in five of their last six games, the second on a throwing error by Molitor.

Twins 8, Orioles 7

At Baltimore, Rod Carew unloaded a bases-loaded triple, his fourth hit of the game, to highlight a seven-run, ninth inning that enabled Minnesota to beat Baltimore.

Mariners 6, Blue Jays 0

At Seattle, Paul Mitchell scattered seven singles and Julio Cruz, Steve Braun and Bill Stein drove in two runs each to lead Seattle to victory over Toronto. Mitchell walked two and struck out four in recording his first shutout and second complete game of the year.

Angels 7, Indians 3

Run fairly hit a two-run homer in the first inning and pinch-hitter Merv Rettenmund cracked a grand slam in the seventh to spark the California victory over Cleveland. Chris Knapp went 8½ innings to get his fourth triumph in six decisions. Paul Daubert homered for Cleveland.

Rangers 9, Yankees 5

At New York, Bump Wills' bases-loaded double keyed a five-run third inning that helped Texas end New York's five-game winning streak. Wills doubled off reliever Sparky Lyle to score Bobby Thompson and Jim Sundberg, giving Texas a 6-1 lead and sending the Rangers toward the eighth win in their last nine games.

Red Sox 6, White Sox 0

At Boston, Jim Rice, who drove in three runs in the first game, belted a two-run homer in the nightcap to back the seven-hit pitching of Jim Wright in his first major-league start, enabling Boston to sweep Chicago. Rice hit his eighth home run of the season in the fourth inning of the second game, scoring Rick Burleson, who had doubled. Wright allowed two hits in only one inning—the fifth. It was his first major-league win. Boston won the first game 6-5 in 10 innings on a two-run homer by Dwight Evans.

Tigers 6, A's 0

At Oakland, Bob Sikes fired a four-hit and Detroit backed him with a 15-hit attack in the Tigers' rout of Oakland, snapping the A's five-game winning streak. All the hits off Sikes, a young left-hander brought up from the minors earlier in the week, were singles and the Oakland player got as far as third. Sikes walked three and struck out none.

In the National League:

Reds 6, Expos 2

At Cincinnati, Pete Rose began his pursuit of the next 1,000 hits. Rose added two hits—including a

double during a four-run second inning that lifted Cincinnati to a 6-2 victory over Montreal and earned Tom Seaver his first win in seven starts this season. Rose, who became the 13th major league player to reach the 3,000-hit mark with two hits Friday night, helped push the Reds to a big lead in the second.

Pirates 3, Dodgers 2

At Pittsburgh, Willie Stargell hit a two-run single and Grant Jackson posted the first save of the season by a Pittsburgh pitcher as the Pirates beat Los Angeles. John Can-

delaria, 2-4, who had taken a five-hitter into the ninth, gave up a pinch-hit home run to Lee Lacey to open the inning and was replaced by reliever Kent Tekulve.

Phillies 7, Mets 2

At Philadelphia, Greg Luzinski drove in four runs with a double, homer and sacrifice fly helping the Phillies hand the Mets their 10th loss in the last 12 games. Steve Carlton, 3-3, earned the victory while Pat Zachry, 3-1, gave up six runs in the first two innings.

Cardinals 1, Padres 0

At St. Louis, John Denny pitched a two-hit shutout for his third win of the season and Garry Templeton singled in the only run in the seventh inning as the Cards blanked the Padres.

Braves 2, Astros 1

At Atlanta, Jerry Ruster drove in Rod Gilbreath with a bases-loaded single with none out in the 10th to give Atlanta the victory over Houston as four pitchers combined on a three-hitter.

Yankees 5, Rangers 2

At New York, Thurman Munson had three hits and drove in two runs to lead New York to its fifth consecutive victory and a triumph over Texas. The loss broke a seven-game Texas winning streak.

Orioles 2, Twins 1

At Baltimore, Billy Smith's run-scoring double in the eighth inning snapped a scoreless tie and Baltimore went on to defeat Minnesota behind the four-hit pitching of Mike Flanagan.

Brewers 9, Royals 0

At Milwaukee: Sixto Lezcano homered twice and Ben Oglive once to back the four-hit pitching of Mike Caldwell and lead Milwaukee past Kansas City.

Angels 5, Indians 0

At California, Nolan Ryan pitched the sixth one-hitter of his career and his second shutout of the season as California defeated Cleveland. Ryan lost his bid for a record fifth no-hitter when Duane Kuiper, batting just 193, singled inside the third-base line in the sixth inning.

A's 5, Tigers 1

At Oakland, John Johnson's four-hit pitching sent the A's to their fifth consecutive victory, 5-1, over Detroit in a match of American League division leaders. The A's record of 19-5 is the best in the majors.

Mariners 9, Blue Jays 1

At Seattle, Steve Braun drove in four runs and Rick Honeycutt pitched a four-hitter as Seattle beat Toronto.

Padres 2, Cardinals 1

At St. Louis, San Diego's Mike Champion singled home a run in the second inning and Oscar Gamble tripled home another in the third to lead the Padres to a 2-1 victory over St. Louis.

Phillies 9, Mets 4

At Philadelphia, rookie Jim Morrison, filling in for

coach Dick Motta. "But they kept the game under control."

At Denver, David Thompson hit three crucial jumpshots in the final three minutes and the Denver Nuggets overcame foul problems to defeat the Seattle SuperSonics, 116-107. Friday night in the opening game of their National Basketball Association playoff series.

The Sonics, who fell behind by as much as 13 points early in the second half, kept things close by scoring 47 points from the free throw line.

After Seattle guard Gus Williams connected on a pair of free throws with 3:37 left to cut Denver's lead to 102-98, Thompson scored high for a 16-foot jumper.

Thompson was called for goaltending at the opposite end of the court, but then hit two straight field goals and tucked on a free throw when he was fouled on the last basket. It gave the Nuggets a 116-100 edge with 1:34 left.

Seconds later, Bobby Wilkerson took a lead pass from Thompson and hit a stiff shot. Another basket and free throw by Wilkerson helped pad Denver's lead to 114-103 with 31 seconds on the clock.

injured second baseman Ted Sizemore, had three hits to pace Philadelphia past New York, 9-4.

In the American League:

Yankees 5, Rangers 2

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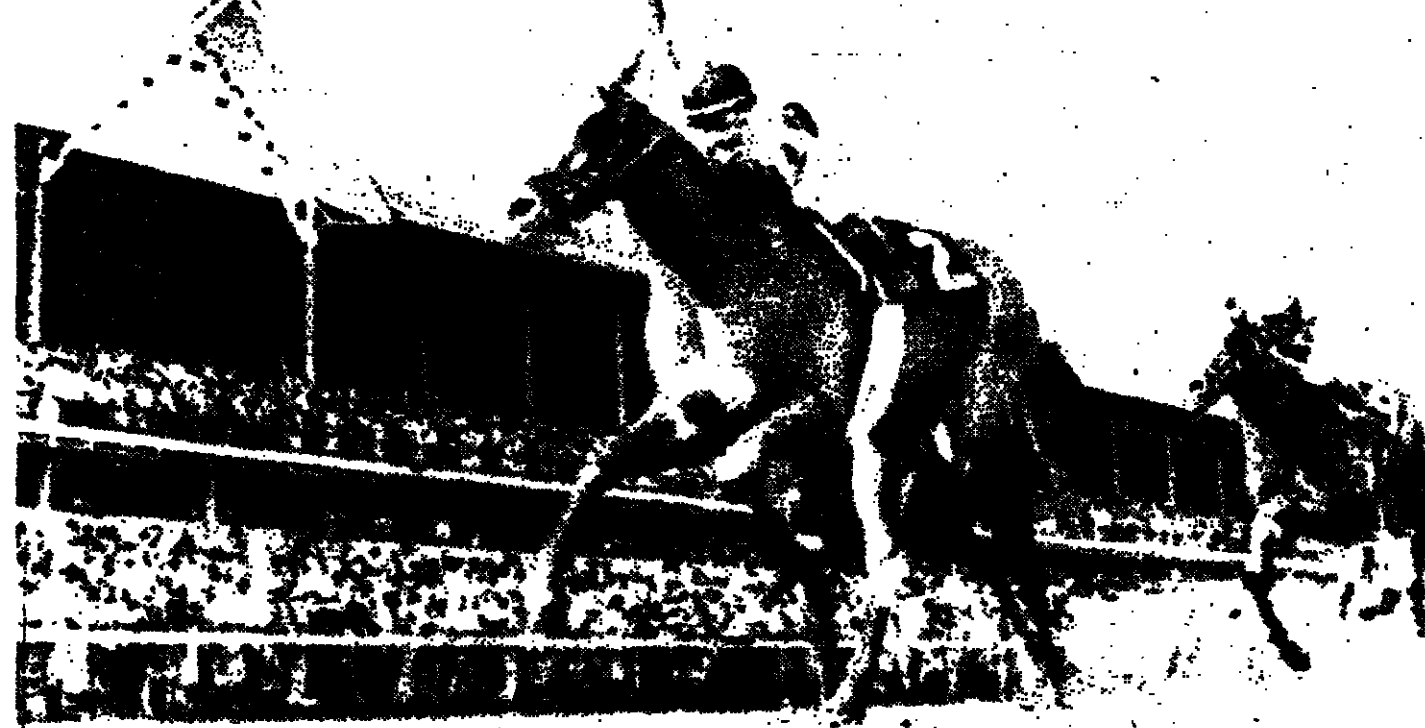
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The referees were under a helluva burden after the first of the second game," said Washington

Steve Cautchen rides Affirmed down home stretch to win 104th Kentucky Derby.



Steve Cautchen rides Affirmed down home stretch to win 104th Kentucky Derby.

## Affirmed Outruns Alydar in Kentucky

By Steve Cady

LOUISVILLE, Ky., May 7 (NYT)—A Kentucky Derby can have only one winning script, and the dramatic scenario in yesterday's running belonged to a golden colt named Affirmed and an 18-year-old jockey named Steve Cautchen.

In a tumultuous three-horse battle royal, at Churchill Downs, Kentucky-bred Cautchen brought his 3-year-old Florida-bred colt home a length-and-a-half ahead of Calumet Farm's favored Alydar, who led third-place Believe It by a length and a quarter.

They said it would be Affirmed or Alydar, just as it was last season in

their six close encounters as 2-year-olds, and that's how it went again. Through the final eighth-of-a-mile in their mile-and-a-quarter test, it was flamingo pink and black silks of Harbor View Farm ahead, and the famed devil's red and blue silks of Calumet gaining. "Here comes Alydar," thousands of fans in the crowd of 135,000 hollered.

"Keep going, Stevie," came the cry from thousands of others. "You got it."

Not Close Enough

Alydar went past Believe It, made up ground on Affirmed, but never was able to get close enough to hook him in the kind of head-to-head combat they waged last year.

Despite the fact that Affirmed had beaten Alydar four times last year and had never finished behind any other horse except that rival, he was sent off as the second choice at 9-5.

Alydar, the sentimental favorite because of the popularity of 85-year-old Mrs. Gene Markey, the Calumet owner, was also the betting choice at 6-5.

But it was the pro-Cautchen sentimentalists who got to spill a tear into their mint juleps as the youngster won the Derby on his first try. Two years ago around this time, Cautchen finished last here on a 136-1 longshot named King of Swat in the first ride of what would become a meteoric jockey career. Last season, the kid from Walton, Ky., became the first rider whose mounts earned \$6 million in a single year. And yesterday, he and Affirmed, and that colt's trainer, Laz Barrera, got the roses and silenced the skeptics who had said the chestnut colt had not been finishing his races as strongly as Alydar.

It was also vindication for 65-year-old Louis Wolfson, the controversial onetime financier who bred Affirmed, and for Wolfson's wife, the former Patrice Jacobs, whose father, the late Hirsch Jacobs, failed in nine Derby tries as a trainer.

Barrera, who had been saying all week his horse should be favored, had shown his confidence before the race when somebody told him, "May the best horse win." "Yeah," replied the 52-year-old trainer. "May the best horse win—again."

## U.S., Cuban Fighters Win World Amateur Openers

By Steve Cady

TEHRAN, May 7 (AP)—Teofilo Stevenson of Cuba and Tony Tubbs of the United States won their opening bouts in the heavy-weight division of the second World Amateur Boxing Championships today, setting the stage for a second-round confrontation.

Stevenson, a two-time Olympic gold medalist, easily beat Ghana's Joseph Mensan when a powerful punch opened a cut over Mensan's eye in the opening seconds of the first round. Mensan and retreated to his corner, forcing the referee to stop the fight.

Tubbs, 21, of Pasadena, Calif., gave a lackluster performance in outpointing Levai Istvan of Hungary. He moved slowly and methodically, keeping his distance despite having a height and reach advantage over the tough Hungarian.

Tubbs' flatfooted style was in complete contrast to Istvan's fast jabs, coupled with fancy footwork. There were doubts as the three-round bout came to an end that Tubbs had won. But the judges awarded him the narrow victory, setting the stage for his fight with Stevenson.

Tubbs earlier had expressed confidence that he could beat Stevenson.

He told reporters on arrival in Belgrade that "Teofilo Stevenson and I are like Muhammad Ali and (Levi) Spinks. Nobody thought that Spinks would succeed and even the bookmakers were

surprised." He added, "That's the way it's going to be in Belgrade."

The championships were slightly marred by politics when Libya's four boxers suddenly announced they were pulling out because Israel was represented.

The toughest fight of the afternoon program was between Venezuela's Pedro Camarro and Miodrag Perunovic of Yugoslavia in the welterweight class.

The two fighters slugged it out throughout the three rounds in toe-to-toe punching. It appeared that the Venezuelan had won but the judges took Perunovic's ability to take the heavy punishment into consideration and gave him the narrow victory.

### NHL Playoffs

Semifinals	W	L	GP	GA
Best of Seven				
Montreal	2	0	14	9
Toronto	0	3	4	14
Seattle	2	0	10	7
Philadelphia	0	2	7	10
Sunday's Game				

Montreal & Toronto	W	L	GP	GA
Sunday's Game				
Seattle & Philadelphia				

### WHA Playoffs

Semifinals	W	L	GP	GA
Best of Seven				
New England	2	1	11	11
Quebec	1	2	11	19
Sunday's Game				
Quebec & New England				

### NBA Playoffs

Semifinals	W	L	GP	GA
Best of Seven				
Washington	2	1	10	100
Philadelphia	1	2	10	100
Denver	1	0	1	100
Seattle	0	1	1	100
Sunday's Game				

Philadelphia & Washington	W	L	GP	GA
Seattle & Denver				

### More Sports on Page 13

## Canadiens Rake Leafs, Lead by 2 in NHL Series

TORONTO, May 7 (UPI)—Guy Lafleur scored two goals on assists by Steve Shutt and assisted on Shutt's first period goal last night to lead Montreal to a 6-1 Stanley Cup semifinal playoff victory over the Toronto Maple Leafs that gave the Canadiens a 3-1 lead in the best-of-seven series.

Lafleur scored his first goal of the game at 11:02 of the second period after taking a perfect feed from Shutt from the corner to give the Canadiens a 4-1 lead. Jacques Lemire widened Montreal's lead to 5-1 at 12:26 of the period.

In the third period, Lafleur added his seventh goal in eight playoff games at 5:08 on a two-on-one break.

Lafleur, playing in his 75th career playoff game, tied for the lead in the playoff scoring race with 16 points, shared by Toronto defenseman Ian Turnbull.

Shutt scored his fifth goal of the playoffs and first of the game at

1:34 of the opening period on a power play as he backhanded Lafleur's rebound over sprawling goalie Mike Palmater.

Charrar backhanded a goal after stealing the puck from Toronto wing Stan Weir and firing it off Palmater's left skate. Yvon Lambert's first playoff goal gave Montreal a 3-0 lead at 17:00.

George Ferguson ruined Montreal goalie Ken Dryden's shutout bid at 8:50 of the middle period as he scored his fifth playoff goal high into the net.

Whalers Beat Nordiques  
QUEBEC, May 7 (AP)—Dave Keon scored twice and the New England Whalers beat the Quebec Nordiques, 7-3, on Friday night to take a 3-1 lead in their best-of-seven World Hockey Association semifinal series.

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# Luxembourg Banking and Finance

## Grand Duchy Paces Growth With Euromarket

### Tax Packet Gives Relief To Bankers

By Darrell Delamaide

LUXEMBOURG (IHT)—Eurocenter Luxembourg is here to stay. The Grand Duchy's growth as an international financial center has kept pace with the mushrooming development of the Euromarket itself and now the Luxembourg market has reached a critical mass—it is important enough in its own right that it will survive as a market center.

This optimistic appraisal of banking in Luxembourg, shared by government officials and the banking community, is always accompanied by a warning, however. The legal and fiscal framework for foreign bank operations here must remain attractive enough in comparison with other Eurocenters that the banks will not take their business elsewhere.

Most U.S. banks already have decided that it is cheaper or more convenient to handle international activities in the Caribbean and newer offshore centers like Singapore. The tax package presented by the Luxembourg government last October marks an attempt to remedy some of the Grand Duchy's competitive disadvantages.

But the problems presented by even this modest effort indicate how hard the task can be and the vulnerability of the Euromarket operations here.

The fiscal package has granted relief that foreign bankers have long been seeking—particularly a tax break on foreign withholding taxes (to make up for Luxembourg's lack of double-taxation accords) and more generous provisions for risk reserves.

The government's proposals, though, fell short of what the bankers had hoped. Nevertheless, even though the measures only created conditions already present in London or Zurich, the package aroused suspicions in neighboring countries that Luxembourg was trying to create a tax haven, encouraging private investors to take their businesses to Luxembourg banks.

Luxembourg has never been a tax haven for foreign banks and certainly will not become one through the current proposals. But the reaction to these proposals and the government's response are:

(Continued on Page 4)



An overview of Luxembourg Stadt.

### Eurex

### Computer System Brings Automation to Trading

LUXEMBOURG (IHT)—Eurex, the ambitious European computerized market for Eurobond trading, continues Luxembourg's close involvement with the international capital markets. Initial business of the Eurex, of course, was in international bonds, with the credit and market activity developing rapidly. The Luxembourg quickly became the main clearing house for Eurobonds. Then Cedel started up as the clearing house for bond trading.

Luxembourg has never had a share of the secondary market which is conducted almost entirely over telephone and dealers and marketmakers in the national financial capital.

Idea of using a computer to do the time-consuming (and expensive) task of matching bids and offers was taken up by the Luxembourg bourse and led to the present last year of Eurex, a company owned by an international group of banks.

plan is to program a system which will match user orders with the market-maker quotes, execute trades, confirm the exchange, clear the transaction. In the system will be provided a running status service on trades, yields, development.

ough there are reservations many bankers, especially bankers, Eurex seems clearly an idea whose time has come. It offers a long-range requirement for a worldwide market, comments Edmond Israel, managing director at Banque Paribas in Luxembourg and a member of the Eurex board. A project is in line with a direction, it has to

embourg is its physical location. The network extends throughout Europe and is plugged into its two rivals—Euroclear, the Brussels-based bond-clearing firm, as well as Cedel. Still, the banking community here welcomes the idea that Eurex will heighten Luxembourg's profile as a bond-trading center.

Cedel itself added two new services this year to become more competitive. At the beginning of the year, the clearing house introduced a plan enabling participating dealers to establish a credit line with certain banks. This standing overdraft facility matches a service already offered by Euroclear. But the Brussels firm was founded and is still operated by Morgan Guaranty, whereas Cedel, a separate incorporation, did not have this direct backing from a bank.

In March, Cedel arranged for the lending and borrowing of the bonds among participants. Lenders have a chance to earn extra interest on the bonds deposited with the clearing house, and borrowers have a quick way to cover short positions.

Cedel reports that both services are functioning well. The clearing organization also registered a gratifying growth for 1977. Turnover for the year rose to \$38.5 billion from \$29.7 billion the previous year. The number of participants rose to 847 from 766, and the number of issues in the system was up to 2,410 from 2,004. Deposits of securities rose to \$16.4 billion from \$11.9 billion. Profit was up 17 percent to \$566,000 and Cedel again paid a 5 percent dividend to its shareholders.

The Luxembourg bourse, which is the main exchange for Eurobond listings, also grew registering a strong increase in new issues, albeit not quite so strong as in 1976. In

(Continued on Page 5)

## Foreign Banks: Europe Steps Up as U.S. Winds Down

### Warm Reception

number of shareholders has been the charter group of 28 and more are on the way. The service is set for Jan. 1, and Henri Grisius, executive secretary, says active market will begin this summer.

Grisius said initial response was encouraging. "Wherever we described our plans, there's a warm reception," he said in an interview. "People didn't imagine the complete it would be."

the bankers still express reservations the system seems to them. They say banks may find themselves doing business with someone who is not necessarily willing to do business with them. Marketmakers argue advantages of Eurex as an international system are greater for users, who are sure of getting prices.

Grisius counters that these are taken into account and the system provides for exclusion of trading partners and orders of business. He also feels that the system will actually consolidate the position of marketmakers and users will no longer trade each other. Mr. Grisius estimates that up to two-fifths of current trades bypass marketmakers.

### Rivals

Mr. Israel addresses what he feels is the underlying fear. "The element won't be eliminated," he said. "Eurex is meant to be a trader to keep track of market developments and to actually

users of Eurex point to parallel foreign exchange trading, a market linked by telex and telefax. Eurex simply is an electronic trading floor that the market more efficient.

Grisius emphasizes that only connection with Lux-

New York bank with a unit in Luxembourg, "we'd probably think twice about it."

For the Americans, the matter is simple—the corporate tax bite in Luxembourg makes genuine offshore centers like the Channel Islands, Nassau, or maybe eventually New York much more attractive for handling loan business.

### No Leftovers

Americans concentrate their Euromarket activities in London and do not really have much left over for Luxembourg—except agency work for corporate customers. The British banks never had a reason to go to Luxembourg and show no inclination to do so now. The Dutch have a much better deal in the Antilles.

But the banks that do come here have very clear conceptions of what they are looking for. The Swiss came looking for a market in which to pour their fiduciary funds. "We are money suppliers for the other banks," said Walter Kobel, assistant director of Union de Banques Suisses (Luxembourg) S.A. "We channel the capital surpluses out of Switzerland. No other banking group plays this role of giver."

The German banks, which are constantly seeking refinancing for their credit activities, especially appreciate the Swiss presence. The Swiss banks, too, bring their expertise in investment management. While no one expects Luxembourg to become a little Switzerland for private investors, most see considerable room for expansion in servicing the private customer with—use American jargon—"high net worth."

"We are developing a specialization in investment management

"I think many American banks don't know

why they set up here," remarked one American.

"They just wanted to be wherever there

might be action."

here," explained Patrick I. Cunningham, vice-president and managing director of Bank of America International S.A. Bank of America just completed a reorganization of its international structure which entailed consolidation of its two Luxembourg subsidiaries (the other was called Bank of America S.A.) and concentration of Euromarket activity in London.

Mr. Cunningham and others see a pickup in interest from private investors for depositing their money in Luxembourg, especially in the wake of the Swiss measures blocking securities investments by foreigners. (The Swiss deny the measures adopted to quell short-term currency unrest will divert any significant number of investors to the Grand Duchy.) Although Luxembourg calls attention to its tradition of bank secrecy, its very presence in the European Economic Community—leaving it subject to any community-wide disclosure regulations that may be adopted—makes it suspicious for the traditional Swiss clientele.

The arrival of the Scandinavian banks has been greeted with enthusiasm. The number of banking

units from the Nordic countries rose to 10 at the end of last year from just three at the end of 1975, and at least three or four more are on the way. The main reason for coming is to sidestep the strict credit ceilings in the home countries and provide Eurocredits for the industry there. But these newcomers fully intend to engage in a broad range of activity and seem committed enough to Luxembourg to constitute a weighty group on the model of the German units.

"We were already in London with a consortium bank," said John Rammer, general manager of Den Danske Bank International S.A., explaining why the bank's first unit abroad was set up here. "Luxembourg looked easier and perhaps cheaper, although corporate taxes are much higher than in Denmark." It was only in the summer of 1976 that the Danish central bank gave the green light for foreign subsidiaries, and in November of that year, the Luxembourg unit was in business.

Mr. Palmer noted that Danske's Luxembourg unit reported its balance-sheet volume at 15 billion Luxembourg francs (\$475 million)

at the end of last year. "That's as big as an Edge-Act bank in the U.S.," he remarked. "In principle, we are ready to engage in full international operations—but they must be profitable." He added, though, that their growth might be limited by the requirement of keeping capital at 3 percent of balance-sheet volume.

The first Danish bank to arrive was Privatbanken International (Denmark) S.A., which started up in October 1976. Ole Bruun, assistant general manager, said the balance sheet at the end of the first quarter had already reached 13 billion francs (\$412 million). But Mr. Bruun doubted that the Danish or other Scandinavian banks would repeat the German growth. "We are smaller and the difference in size will keep expansion more moderate," he said.

The Scandinavians, though, are now numerous enough to create a market in their own currencies. Moreover, they are interested in taking part in the DM money market, but they also have brought a lot of dollars with them.

### Closer Ties

"We can help create closer ties between London and Luxembourg," Danske Bank's Mr. Rammer said, "because we have always worked closely with London." He said Luxembourg could no longer be regarded as an offshore center, but has become a financial center in its own right.

There are four Norwegian representations in Luxembourg (they were the first to arrive), and two each from Sweden, Denmark and Finland.

Noticeable in the friendly reception given the Scandinavians is the absence of a highly competitive

atmosphere. The nature of the business is such that the hard competition for Euroloans is not linked directly to the Luxembourg presence. Much more important for Luxembourg is the growth of the market

(Continued on Page 9)

### The Five-Point Plan

LUXEMBOURG (IHT)—Last October the Luxembourg government announced a fiscal package to relieve some tax burdens on the banks. The measures of this "five-point plan" have been sought by the foreign banks for a long time. They maintain that the measures simply bring business conditions in Luxembourg closer to those in other European centers and that they do not create any new competitive advantage for the banks. The measures are:

- Removal of the 10 percent value-added tax (VAT) on gold trading.
- Tax credits for foreign withholding taxes on interest payments. This is designed to compensate for Luxembourg's lack of double-taxation treaties. It provides that taxes on interest payments withheld at the source can be counted against the Luxembourg taxes on income from that interest—on a country-by-country basis.
- Elimination of a 5 percent coupon tax on Luxembourg bond issues.
- Elimination of stamp duty (0.1 percent) on certificates of deposit (CDs) denominated in a foreign currency.
- Global value adjustments of up to 1 percent on secured credits. This allows Luxembourg banks to create general (tax-free) reserves. Previously, global reserves of 1.5 percent could be created only for unsecured credits.

The gold measure was attached to the 1978 budget bill and became effective at the beginning of the year (beating a European Economic Community deadline on this type of change). The other three tax measures (tax credit, coupon tax, stamp duty) are contained in a bill currently before the Chamber of Deputies. Passage is assured and expected soon. The measures will be retroactive to Jan. 1 to the extent possible. The proposed legislation also would boost the subscription tax on holding companies to 0.20 percent of total assets annually from 0.16 percent, to compensate in part for revenues lost through the other measures.

The fifth point in the package, the global value adjustments, is to be implemented by administrative order and is not part of the legislation.

### This Report

This report was prepared and written by Darrell Delamaide.



# CIAL

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## Trying to Decide Which Local Banks are 'Domestic'

LUXEMBOURG (IHT)—Amid the international and Euro-banking activity in Luxembourg, it is often difficult to decide which banks here are "domestic."

In addition, given the Belgo-Luxembourg Economic Union, a wide interpretation of domestic would include all of the Belgian banking operations in the Grand Duchy.

Kredietbank Luxembourg is a case in point. Does it, or doesn't it, rank as a domestic bank?

Founded in 1949 as a subsidiary of Kredietbank Brussels, the unit functioned until the 1960s as the branch in an area that for financial purposes could be regarded as domestic.

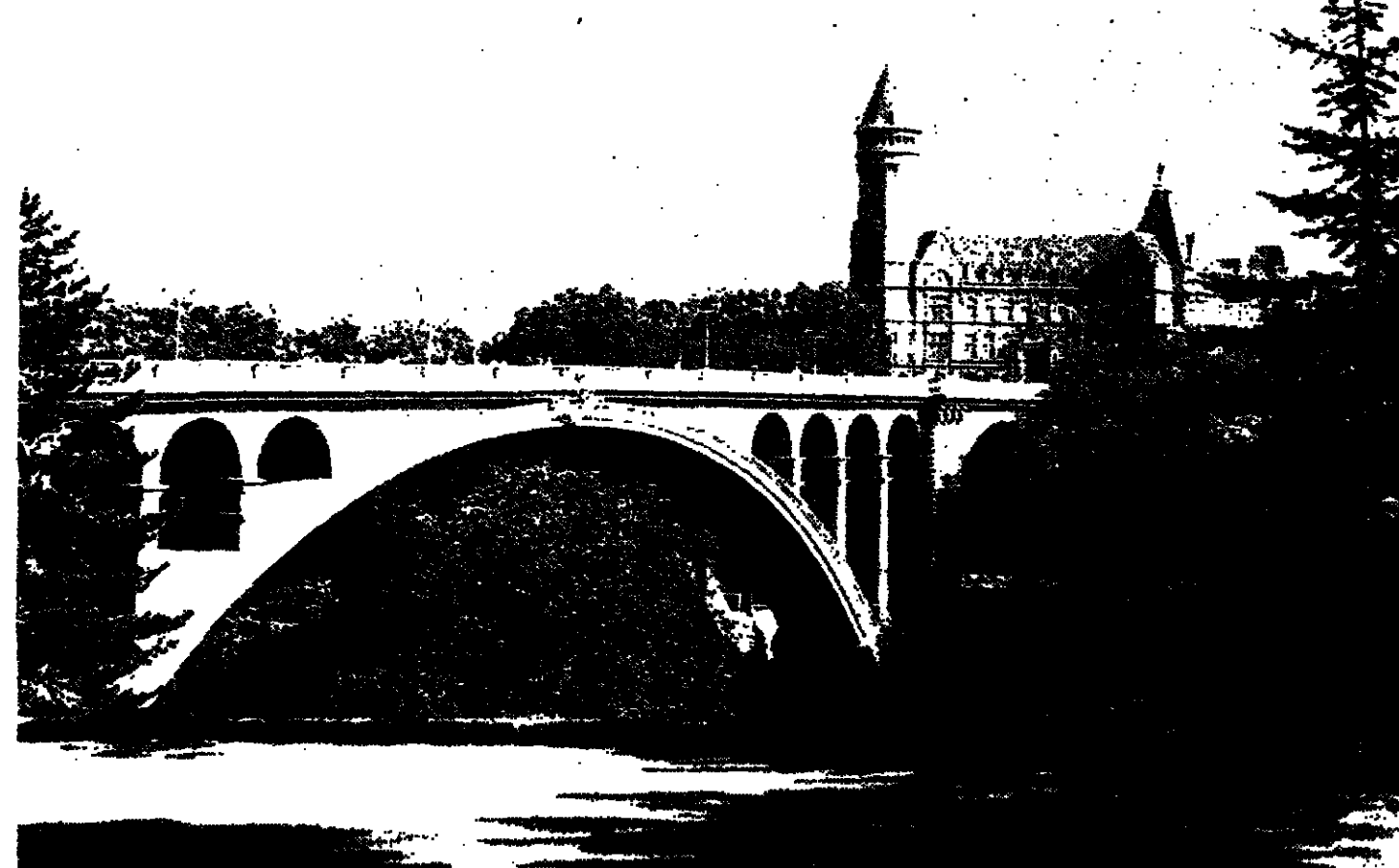
"We're the most foreign of the domestic banks and the most domestic of the foreign banks," commented Andre Coussement, general manager of KBL. He noted that the recent reorganization of the Kredietbank group, transferring KBL to direct ownership of the holding company, made the Luxembourg operation a sister rather than a daughter of the Brussels bank.

The change will make KBL more prominent and put even greater emphasis on its role in the Euro-market on behalf of the group. Mr. Coussement said. Still, KBL has three branches in Luxembourg and does a considerable amount of retail business.

Clearer pedigrees can be found for the Big Three commercial banks—Banque Internationale à Luxembourg, Banque Generale du Luxembourg and the Caisse d'Epargne de l'Etat-Banque de l'Etat. Banque Internationale (BIL) was founded in Luxembourg in 1856 as a private bank with an international orientation. Caisse d'Epargne was established the same year as a state-guaranteed savings bank. Banque Generale was already around in 1919 as a branch of Societe Generale de Belgique, and in 1935 was incorporated as a Luxembourg company.

### World War II

Caisse d'Epargne was integrated into the German savings bank system under the Occupation during World War II, and the bank was reconstituted afterwards as a universal bank. It is the largest domes-



The Caisse d'Epargne de l'Etat—the State Savings Bank.

tic bank with a (1976) balance-sheet volume of 98 billion Luxembourg francs (\$3.1 billion).

BIL, through a series of events—including the 1976 merger with Banque Lambert-Luxembourg—is now 40-percent owned by Banque Bruxelles Lambert. Through the ups and downs of its history, though, BIL has retained its right to issue banknotes (Luxembourg has never had a central bank). It is the second largest domestic bank, with a 1977 balance sheet totaling 70 billion Luxembourg francs (\$2.2 billion).

BIL engages in commercial and retail banking, syndicated loans, bond trading and manages Luxembourg franc issues. The bank also holds a 50-percent interest in

Banque Continentale du Luxembourg (the other half is held by Hessische Landesbank Girozentrale of Germany) and 40-percent of Banque Commerciale (the rest belongs to Banque Nationale de Paris), which was founded following World War I.

"We are stressing the international side more than ever," said Edmond Israel, BIL management board member. "We recently opened a representative office in Singapore. We believe that South-east Asia is very important for commercial and financial links."

Besides aiding in the export of Luxembourg steel and attracting industry to the Grand Duchy, Mr. Israel said BIL hopes to help link the two international financial centers.

"More and more, this free market is a worldwide market where

you still distinguish regional centers," Mr. Israel noted. "It will become more harmonized as dealing houses go around the clock, but the framework is still a little vague. Linking two centers like Singapore and Luxembourg could be instrumental in furthering this harmony."

But he hastened to add that domestic business is still very important for BIL. The bank is becoming increasingly "universal" and offering a bigger palette of services.

Caisse d'Epargne, on the other hand, while working to remove its slow and bureaucratic image, is in no hurry to go abroad on the model of the German central savings banks. Henri Germeaux, assistant director at Caisse, said that there is no need "at the moment" for the bank to go abroad to fulfill its

functions as a savings bank and state bank.

Mr. Germeaux noted that Caisse d'Epargne is the "house bank" for many American firms active in Luxembourg. The bank also holds deposits for many of the foreign banks operating in Luxembourg without becoming too involved in the Euro-market activities.

### Across the Way

Caisse d'Epargne, by virtue of its high market share in private savings accounts (50-60 percent), has usually determined domestic interest rates. "The savings-account rate becomes the key rate," explained Mr. Germeaux, noting that the Grand Duchy avoided the big fluctuations of the Belgian interest rates despite the monetary union. "Across the way, meanwhile,

Kredietbank's Mr. Coussement has plans for strengthening the bank's international activity. KBL enabled the Kredietbank group in 1974 and 1975 to top the list of Euro-bank managers. But then, Mr. Coussement explained in an interview, their share slipped for two reasons. The interest rate structure was such that Eurobonds were no longer interesting to Belgian customers—the source of KBL's placing power. Also, bonds denominated in European Units of Account—Kredietbank's specialty and "the only way you could borrow in 1975," according to Mr. Coussement—faded from the scene.

"But we increased our profits from the issuing business in 1976 and 1977," Mr. Coussement said. He explained that KBL specialized in private placements, primarily for Scandinavian borrowers. "Also, I've spent half my time abroad, expanding our placing power," he said.

He noted an expansion in KBL's commercial activities and greater engagement in syndicated loans. "But we bid for medium-sized business—\$25 to 30 million," Mr. Coussement said. "Why take \$5 million in a \$200-million loan to Ireland. The Irish will never be grateful to you." A small Scandinavian city or a company, however, would be a grateful customer, he added.

Mr. Coussement is also enthusiastic about advanced payment and performance bonds, especially for projects in the Middle East. He called attention to a \$60-million performance bond for Lockheed Corp. managed by KBL last year.

For the purpose of domestic finance, particularly to fill the gap for medium and long-term capital for industrial expansion, the government last year created the Societe Nationale de Credit d'Investissement. With Caisse d'Epargne, the new institution is the only public-sector financial institution in Luxembourg (Caisse d'Epargne fulfills the functions of government treasury—including the issue of smaller banknotes and coins).

Rounding out the domestic picture are the two cooperative banks: Caisse Centrale des Associations Agricoles Luxembourgeoises, Fortuna-Societe Cooperative Credit et d'Epargne.

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**KREDIETBANK S.A. LUXEMBOURGEOISE**



January, 1978





# remier Gaston Thorn on the State's Role in the Euromarket

LUXEMBOURG (IHT)—In an interview, Luxembourg Premier Gaston Thorn discusses the foreign banking in the Duchy's economy with Dailymail of the IHT. The 58-year-old chief also bluntly addresses the problems arising from the role of a Euromarket within the European Community. He comments on the future of the Duchy and Luxembourg's

*'Good luck and success always breed some jealousy. But I think we were able to convince our neighbors that their fears are not justified, that the Luxembourg financial center does not work against their basic interests. Certainly the government has no intention of condoning any such activity.'*

balance—The number of Luxembourg has quadrupled in the last 12 years; the balance totals of all the banks amount to more than 100 billion Luxembourg francs. He does Eurobanking play in Luxembourg economy? Has crisis made foreign bank- ing?

Thorn—The banking sector is the second largest private employer (after the steel industry) with more than 6,000 people—almost 10 percent of the active population. While the Duchy's share in our GNP is diminished to about a third, the development of the sector comes just in time to compensate these losses. The banking sector already is the taxpayer in the country. In the last decade, about 4,000 new jobs were created in this sector. Financial activities help us to keep pace of payments favorable to a 9 billion-franc trade gap.

Luxembourg is currently new industrial investment in the United States and elsewhere. Luxembourg's development is a financial center a selling and attracting new industry?

In the Euromarket, coupled with transfer of capital, offers investors a range of financial facilities which they are not finding anywhere else. That is an asset. The smooth operation of the center, its reputation for competence and efficiency further points we are making to new investments.

As the growth of Luxembourg is a Eurobanking center any adverse reaction or pressure from other members

of the European Economic Community, particularly Belgium or West Germany?

A—Good luck and success always breed some jealousy. But I think we were able to convince our neighbors that their fears are not justified, that the Luxembourg financial center does not work against their basic interests. Certainly the government has no intention of condoning any such activity. Luxembourg has survived the recent monetary and financial turbulences without any notable crisis. Once again the liberal but very real and competent control exercised by the Banking Commission has proved its effectiveness. Being conscious that a small-sized country benefits a lot, or even most, from the free circulation of people, goods, services and capital, Luxembourg fully accepts EEC policy in those matters and entirely respects its EEC obligations.

But as long as harmonization of the fiscal systems and of the tax collecting procedures is not activated within the community, we don't see why we should be asked to sacrifice ourselves and do other people's and other countries' job of stopping the gap in their own fiscal policies. We have never refused to discuss real problems; we have almost always found sensible solutions, but we don't intend to be a scapegoat.

On the contrary, we feel that Luxembourg is fulfilling a useful function in the international money markets and one which would otherwise, no doubt, be fulfilled elsewhere, probably outside the community and therefore out of reach

of any control or effort at cooperation.

Q—What are your major concerns about the Eurobanking activity here, given that the whole operation is vulnerable to forces beyond the control of Luxembourg—or anybody else for that matter?

A—Transactions with non-residents as well as transactions in foreign currencies represent about 80 percent of the banks' total business volume. Among the 94 banks, only 12 are of Luxembourg or Belgian origin. But the money flows through rather than to Luxembourg. Although large amounts are involved there is little if any repercussion on the national economy, apart, of course, from the banking activities in themselves. So there is no disruptive effect on the national economy and consequently no temptation or pressure to bend these international financial flows to national objectives—which is another attraction of Luxembourg as a financial center.

Q—What direction do you see the world monetary system taking, and what role do you want Luxembourg as a Eurobanking center to play in the near to medium term—the next five years? What dangers lie in the near future?

A—Unfortunately, economic and financial activities are presently very negatively influenced by the sharp fall of the U.S. dollar. It is not merely the weakening of the U.S. currency which seems to cause most trouble, it is rather the uncertainty about it, where and when it can finally be stabilized which is such a serious preoccupation. In

the next few years, Luxembourg's banking sector will remain dynamic, though its expansion will perhaps be at a slower rate. I think that above all the financial center's relations with non-industrial countries could be improved. Presently more than two-thirds of the Eurobanks' activities concern Western European countries. Only a few banks have their origin in a country of the Third World.

A lot needs to be done to profitably and sensibly recirculate money so abundantly available in the OPEC countries and elsewhere to finance development, for instance, and the restructuring of the world economy. Luxembourg can play a useful role here. First steps are already taken, but they must be followed by others.

Q—Do you think Luxembourg can remain "competitive" as a Eurocenter?

A—A main concern of the government is certainly to maintain the competitiveness of the financial center. Therefore, the banks established in Luxembourg must be offered the same or better conditions than elsewhere, in London or Zurich. So this government recently adopted these measures in order to ease or eradicate certain fiscal handicaps which have disadvantaged Luxembourg-based banks as compared to banks located in other centers. But above all the development and the reputation of Luxembourg is due to natural assets or general considerations, like the central geographical location in the heart of Europe, the very efficient



Luxembourg's  
Premier  
Gaston  
Thorn.

telecommunications system, the bilingual and even largely trilingual population, the healthy political and social climate.

Q—Luxembourg has been designated as the "financial center" of the European Economic Community. Do you foresee any significant

development in the EEC itself that would lead to the establishment of a new community institution or office in Luxembourg?

A—Luxembourg already is the seat of the EEC's existing financial and monetary institutions: the European Investment Bank (since

1968) and the European Monetary Cooperation Fund (since 1973). The benefits are reciprocal: the EIB has almost certainly drawn advantage from Luxembourg's growing international financial position. For Luxembourg, the bank lends extra weight and prestige to its international banking reputation.

The EEC shows little progress at the moment in the institutional field. I am convinced however that increased cooperation and common action in the monetary field is a priority in the present difficult economic situation. The existing instruments should, however, be able to cope with our present needs.

## BANQUE INTERNATIONALE A LUXEMBOURG

### BIL reports good results in 1977

Assets	
at December 31st, 1977 (in thousands of lux. francs)	
Cash and deposits with banks at maximum one month	24.699.357
Term deposits with banks	18.496.798
Deposits with non banking financial institutions	1.394.200
Bills and notes	2.273.184
Loans and advances	20.291.611
Securities	3.329.300
Fiduciary accounts	3.365.915
Miscellaneous	1.404.856
Fixed assets	1.779.288
	<b>77.034.509</b>
Liabilities	
Current liabilities:	
- Banks	23.991.415
- Non-banking financial institutions	546.588
- Deposits	44.415.354
- Miscellaneous	1.758.282
Fiduciary accounts	3.365.915
Shareholders' equity and borrowed capital	2.713.087
Available profit	243.868
	<b>77.034.509</b>

#### International services expanded

1977 was an eventful year for Banque Internationale à Luxembourg (BIL), Luxembourg's oldest bank — founded in 1856 — and one of its largest and most active.

At the end of 1976, the Bank had taken decisive steps to expand its domestic and international operations by merging with and absorbing Banque Lambert-Luxembourg. Despite the problems and an initial burden of extra administrative costs inherent in a merger of this magnitude, BIL is glad to report satisfactory overall results for 1977. Total assets grew by about 10 per cent to over Lfrs. 77 billion accompanied by a corresponding increase in earnings.

In addition to its comprehensive coverage of the domestic market and the privilege to issue bank notes, BIL is expanding its international services. Operating in one of the world's foremost financial centers, the Bank offers a broad range of international facilities including Eurobonds; syndicated Euroloans; security trading; foreign exchange and money market transactions; portfolio management; and domiciliation of foreign corporations and trusts. Through a far-reaching network of correspondents and its association with ABECOR\* — the world's largest banking group with assets exceeding US \$ 200 billion — BIL provides services worldwide.

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The demised balance sheet and profit and loss account have been published in the *Moniteur des Sociétés* and *Associations du Grand-Duché de Luxembourg* and may be sent on your request.

\* Allgemeine Bank Nederland, Banca Nazionale del Lavoro, Banque Bruxelles Lambert, Banque Nationale de Paris, Barclays Bank, Bayerische Hypothekbank und Wechselbank, Dresdner Bank, Österreichische Länderbank and the BIL.

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Bayerische Vereinsbank also benefits from its special status, dating back to the nineteenth century, both as a commercial bank as well as a long-term finance house. This dual function gives the Bank added flexibility and financial backbone which is of great value to its corporate clients, particularly in the field of capital investments in Germany, foreign trade and international financing.

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# Grand Duchy's New Tax Packet Grants Relief to Bankers

(Continued from Page 1)  
the strains inherent in the disproportionate activity of West German banks in Luxembourg indicate the weaknesses of the tiny country as a financial center.

The government's flexibility is further restricted by the fact that foreign banks have become increasingly important in the domestic economy, especially in the wake of problems in the steel industry. Luxembourg's traditional mainstay.

Still, the banking center has grown and seems likely to continue in this direction. Balance-sheet volume of Luxembourg banks was up 23 percent last year, after a 15-percent growth the previous year. The number of banks rose to 94 following 10 new arrivals in 1977 (compared with just 37 at the beginning of the decade and 15 in 1960).

Since the end of 1973, as the Euro market itself has doubled its volume, Luxembourg has increased its share from 7 percent to over 11 percent. Its share of net lending (cred-

its to non-banks) has grown to 25 percent from 16 percent in the same period.

And if the Americans have reduced their activity in Luxembourg, German banks have continued to expand, in numbers and in volume, while an increasing number of banks from Scandinavia and Italy are opening up shop in the Grand Duchy.

The American accounting firm Peat, Marwick & Mitchell summed it up in a memorandum on how to go about setting up a bank in Luxembourg: "In spite of certain disadvantages, Luxembourg now has a roster of bank names of sufficient prestige to make it attractive as a market place in itself—a place where many self-respecting international banks believe they ought to have a presence."

## On the Map

Or, as one newly arrived Scandinavian banker generously observed, "Most people know where to find Luxembourg on the map now."

Luxembourg's location in the center of Europe is at once its major strength and weakness. Its central location, well-developed infrastructure, its ties to the European Economic Community and tradition of fine living in the European style certainly distinguish Luxembourg from the classic offshore center. And yet, like the traditional offshore center, its position as a financial place is not due to its strength of its economy but to its smallness and freedom from restrictive domestic regulation. But this freedom itself could eventually be restrained by banking regulation adopted on an EEC level.

A more immediate threat would be efforts from other European financial centers—Amsterdam, Brussels, Paris, Frankfurt—to increase their international activities with favorable legislation, a move Luxembourg could provoke if it favors the banks too much. This is the gauntlet Luxembourg has to run.

"We must pay close attention to keeping the banking center attractive—especially from a fiscal point of view—in comparison to London, let alone the real tax havens," Finance Minister Jacques Poos said in an interview. "On the other hand, we must avoid possible retaliation or counter-measures against Luxembourg from our neighbors."

The importance of the banking sector in the Luxembourg economy has been well-publicized. The banks paid 4.7 billion Luxembourg francs (\$149 million) in taxes last year, almost three-fourths of all corporate taxes and 12 percent of the government's budget.

## Exaggerated

But Luxembourg's finance minister feels the importance of the banks has been exaggerated. "I don't agree with a press report that this country lives exclusively from the banks," Mr. Poos said. The 6,300 persons employed in the banking industry make up just 4.5 percent of the work force. Mr. Poos noted. He added that even though the steel industry has not paid any corporate taxes lately because of heavy losses, it is still the biggest employer and pays the wages that are then taxed. Private income taxes brought the government 9.5 billion francs (\$300 million) in revenues last year.



Still, the government admits that the unforeseen growth of banking activity has done much to tide the economy over the period of industrial transition.

The corporate tax rate in Luxembourg is 40 percent, plus a 15-percent withholding tax on income paid out as dividends. This makes the effective tax rate about 50 percent for many banks operating in Luxembourg—hardly the rate to justify the distribution of tax haven.

As Mr. Poos remarked, "If Luxembourg has developed as a financial center, that's due to a whole set of reasons, which have nothing to do with fiscal facilities."

Even the proposed fiscal measures to ease the tax burden are regarded by some bankers here as "half-hearted." The most important—the credit for foreign holding taxes on interest income—has lost some of its glitter through the fact that the credits will be given on a country-by-country basis.

## Step by Step

Mr. Poos conceded that many bankers would have preferred the concession to be granted on a large geographical scale, at least by zones. But the government wants to take it step by step because the effect on lost tax revenue is difficult to calculate ahead of time. Despite their disappointment, though, the bankers welcome the measure, which has long been seen as necessary.

Luxembourg has only eight double-taxation accords (Austria, Belgium, France, West Germany, Ireland, the Netherlands, the United Kingdom and the United States) because the Grand Duchy does not really have much to bargain with. The rather complicated law now under consideration would bring some unilateral compensation, and will certainly improve the profitability and competitiveness of the Luxembourg banks in the Euro-credit market.

Credit business has gained in importance in Luxembourg in any case. Although the proportion fluctuates, the amount of credit business is nearing half of total volume, and an increasing proportion of the credits managed in Luxembourg are

straight medium- and long-term lending rather than roll-over. One banker estimated that roll-over credits, which are renewed every three or six months for a set period and represent the "classic" Euro-credit, make up half of the credit business in Luxembourg.

Another measure of the five-point program, to be implemented by administrative order rather than by law, is the allowance of global risk reserves even on secured credits. The international banks have lobbied long for this measure, which provides them with greater flexibility in building tax-free reserves. Previously, global reserves were allowed only for unsecured credits.

Other measures in the tax package are expected to further new types of business. Removal of the value-added tax on gold trading adds a new service for private customers and is expected to boost investment management activity (although Banking Commissioner Pierre Janss cautions that Luxembourg is not going to become a major gold center on the Zurich or London models).

## CDs

Elimination of the stamp duty for certificates of deposit (CDs) denominated in foreign currencies could foster a market in these short-term instruments. The Swiss banks, which are money suppliers in the Luxembourg market, are known to be interested in developing the money market.

Taking away the coupon tax for bonds issued in Luxembourg is designed to encourage more issues and perhaps indirectly support the secondary bond market. Although

the Luxembourg exchange is the main bourse for listing Eurobonds, there is not much trading in the bonds here. (The establishment of Euronext, a computer-assisted trading system in bonds, is also expected to help this market.)

To compensate in part for revenues lost through these measures, the legislative proposal calls for boosting the annual subscription tax on holding companies to 0.20 percent of total assets from 0.16 percent. This sounds small, but this tax brought in about 500 million francs (\$16 million) last year, and the 25 percent boost will raise almost another 150 million francs.

Just how many of these new opportunities the banks will find worth exploiting remains to be seen, but the track record of Luxembourg banks so far indicates they will not pass up any worthwhile opportunities to expand their business and increase their earnings.

Pierre Werner, long-time finance minister and premier and currently head of the main opposition party, feels that Luxembourg's future as a financial center is dependent on dynamism and flexibility of both the banks and the government authorities.

He looks for an increasing diversification of operations. "We have to count on new developments," Mr. Werner said in an interview.

"But the basic factors which have favored development remain—small country, stable political and social conditions, absence of strong governmental intervention."

It was precisely this set of qualities, Mr. Werner recalled, that brought the first international interest in Luxembourg following the war. International bankers and

multinational corporations approached the Luxembourg government with a request to adapt its holding-company law, dating from 1929, for financing purposes. The law was changed to allow loans to ten times equity, so that many U.S. companies made financial transfers through Luxembourg to their European operations. The holding-company law also was adapted so that investment funds qualified for the tax immunities.

This was a prelude to Luxembourg's development as a Euro area center. The liberal holding-company legislation, the lack of a central bank and the stringent supervision offered a freedom of action attractive to banks. Mr. Werner said. With the 1963 Internal Equalization Tax in the United States and the take-off of the Euro market, banks were looking for places to conduct these operations with a minimum of interference.

In 1965, Luxembourg's reputation as an international financial center was further fostered through the EEC's designation of the Grand Duchy as its "financial capital," to compensate for the loss of the European Coal and Steel Community's executive (through its merger with the EEC Commission). Luxembourg became the site for the European Investment Bank and other financial operations of the community.

In 1967, Dresdner Bank became the first of the German banks to step across the border. A virtual flood followed as the German banks sought to escape the minimum reserve requirements imposed by the Bundesbank (and later circumvented the Bardeleben, a penalty imposed by the German government to inhibit foreign banking).

From then on, Luxembourg got with the critical phase of open liquidity and unhealthy competition at the beginning of the 1970s and through the crisis years 1973-1974 as the switch to float exchange rates, the oil crisis and OPEC surpluses led to foreign exchange speculation, bank failures (Herstatt) and a crisis of confidence. The subsequent reversion of the Eurobanks with a more cautious approach to credits a foreign exchange re-stabilized market and enabled it to grow from \$215 billion at the end of 1974 to \$350 billion at the end of 1977.

"Sometimes economic reality is stronger than theory," said A. Werner, describing the development of the Euro market in spite of official worries in Luxembourg. "The pressure to develop as a center came from the outside and the government responded cautiously and pragmatically, Mr. Werner recalled.

"Some kind of place like this is necessary in each economic zone," he remarked. "A strong financial system is one of the major symbols and realities of a small country."

The Grand Duchy's crossroad location, its tradition of many currencies and languages and its openness aided its growth.

Finance Minister Poos conceals there is still room for worry about the Euro markets. "But we're not therefore optimistic. This big discussion about the possible collapse of the Euro market is in my opinion premature," he commented. Bead he continued, "national banks the big private banks here are convinced that Luxembourg's informal but effective supervision has been a major factor in the country's success as a Euro center."

As to pressures from fellow E members, Luxembourg has shown it is willing to stand its ground when its interests are at stake. The government has resisted pressure from Belgium—which was concerned about the large number of private Belgian investors who had bonds on deposit in Luxembourg—by pointing out that at least money stays in the Belgo-Luxembourg Economic Union. And it resisted pressure from Germany concerning the operations of German bank subsidiaries here.

Premier Gaston Thorn made clear in an interview elsewhere this report that Luxembourg has intention of sacrificing its financial policies as long as there is no community-wide harmonization of policies.

Pierre Werner, at 64 still an active politician and a likely opponent to Mr. Thorn in next year's elections, puts the matter this way: "We are not opposed to harmonization of taxes—so long as it does not hinder the international financial market."

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	Bank	Group
Volume of Business	DM 8,288 billion	DM 9,664 billion
Total Assets	DM 7,341 billion	DM 8,706 billion
Total Deposits	DM 6,818 billion	DM 8,103 billion
Volume of Credits	DM 6,142 billion	
Capital and Reserves	DM 314 million	
Dividend to Shareholders	DM 9.— per each DM 50.— ordinary share	

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# European Investment Bank Expands Its Lending Activity

LUXEMBOURG (IHT)—The decision of European government heads last month to recast the doubling of the sub-capital for the European Investment Bank was just one more response to the institution's growing responsibilities.

The physical expansion reflects the growth of EIB's activity. New lending last year totaled 1.57 billion units of account (UA) (\$1.88 billion), up 23.5 percent from the previous year, compared with 200 million UA when EIB first came to Luxembourg. From its founding up to the end of 1977, the institution has provided 8,506 billion UA in financing 87 percent of it to EEC member states. The doubling of subscribed capital to 7 billion UA (\$8.4 billion) will enable the bank to carry up to 17 billion UA (\$20 billion) in outstanding loans and guarantees (25 percent). The bank was designated to provide supplementary financing in industrially underdeveloped areas, which, as the writers of the Treaty of Rome thought, might be even more disadvantaged through the competition of the Common Market. Further, the bank was to ease structural adjustments necessitated by creation of the EEC and help finance projects of common interest.

While EIB still concentrates on the regional impact of projects, its

**While EIB still concentrates on the regional impact of projects, its role has shifted somewhat. "The change of emphasis comes from the fact that we have two main problems...Business trends are sluggish and this leads to sluggishness in private investment, particularly in industry. Second, member countries are reluctant to launch public investment projects because of balance of payments problems."**

role has shifted somewhat. "The change of emphasis comes from the fact that we have two main problems," Yves Le Portz, president of EIB's management committee, said in an interview. "Business trends are sluggish and this leads to sluggishness in private investment, particularly in industry. Second, member countries are reluctant to launch public investment projects because of balance of payments problems." Early last year, the European Council expressly asked EIB to help spur lagging economies.

426.2 million UA (\$511 million), almost half of it to the steel industry. As part of its industry lending, EIB boosted its global loans—credits to national intermediary bodies for on-lending to small and medium-sized industry—by 50 percent to 91.3 million UA.

Mr. Le Portz noted that financing for projects of common interest to the EEC received a new accent from 1974 onwards, in the wake of the oil crisis. Projects to modernize European energy supplies and to foster autonomous sources of energy received greater emphasis, he said.

In 1977, 27 percent of EIB lending to member states went to energy projects. Of the total 1.4 billion UA (\$1.7 billion) new financing in the community, 19 percent went for projects in the nuclear-energy field alone.

signed the Lome Convention. Financing operations in 1977 under the convention totaled 84.1 million UA (\$101 million). These loans are provided from EIB's own resources, but often carry interest subsidies financed by EEC budgetary funds.

associations. EIB is diverse in its borrowing. Recent issues included:

- \$30 million (8.25 percent 10-year) in the Asian dollar market;
- 150 million DM (6 percent 12-years);
- 25 million pounds (9.75 percent 10-years) in the Eurosterling market;
- \$200 million in the Eurodollar capital market (split into 10 and 15-year issues).

## Refinance

The concept of EIC is to refinance its lending through borrowing on the basis of the subscribed capital, and to cover its borrowing costs through its interest charges.

It is here, of course, that EIB does have a good deal to do with its refinancing is raised in international capital markets.

Through 1977, EIB raised 6.1 billion UA (\$7.3 billion) in the bond markets. The stepped-up lending in 1977 meant a big increase in borrowing as well. EIB last year raised 1.161 billion UA (\$1.4 billion) in public and private issues, up from 749 million UA (\$899 million) the previous year.

Like other supranational lending

## Borrowing

But this borrowing activity in itself does not require being in Luxembourg. In fact, while noting the central location, good infrastructure and pleasant life afforded by Luxembourg, Mr. Le Portz points out that there is no particular financial benefit to the bank. "We could just as well be in one of the other countries," he commented.

But EIB is not likely to move because Luxembourg likes to hang on to its European institutions.

## Eurorex Brings Automated Trade

(Continued from Page 1)

203 new issues were listed, including 184 international bonds, from 229 the previous year (Eurobonds).

More than 1,100 Eurobonds listed on the Luxembourg exchange by the end of 1977, an estimate of 70-75 percent of all public bond issues—excepting the mark and Swiss franc—which are listed on domestic exchanges. Eurobonds accounted for 27 percent of the issues listed on the Luxembourg bourse, while including foreign shares—only 89, or 6.7 percent of 27 listed issues.

Reasons for Luxembourg's popularity for Eurobond listing are simple—listing here is quick, cheap and easy. The paperwork can be in two weeks, there are no and fees are low. Most bank-insider it useful to list the despite the fact that little is done on the exchange, the sake of prospectuses and nation.

The bourse's development as a bond exchange unintentionally filled the wishes of its founders to establish an international exchange. The bourse

**The reasons for Luxembourg's popularity for Eurobond listing are simple—listing here is quick, cheap and easy.**

was conceived in 1927 and finally opened in 1929, hardly a propitious year to open a stock exchange. Depression, war and reconstruction kept the Luxembourg exchange from developing its international aspirations prior to 1960, and the capital needs of the Luxembourg economy are scarcely sufficient to support a full-scale exchange.

**Investment Funds**

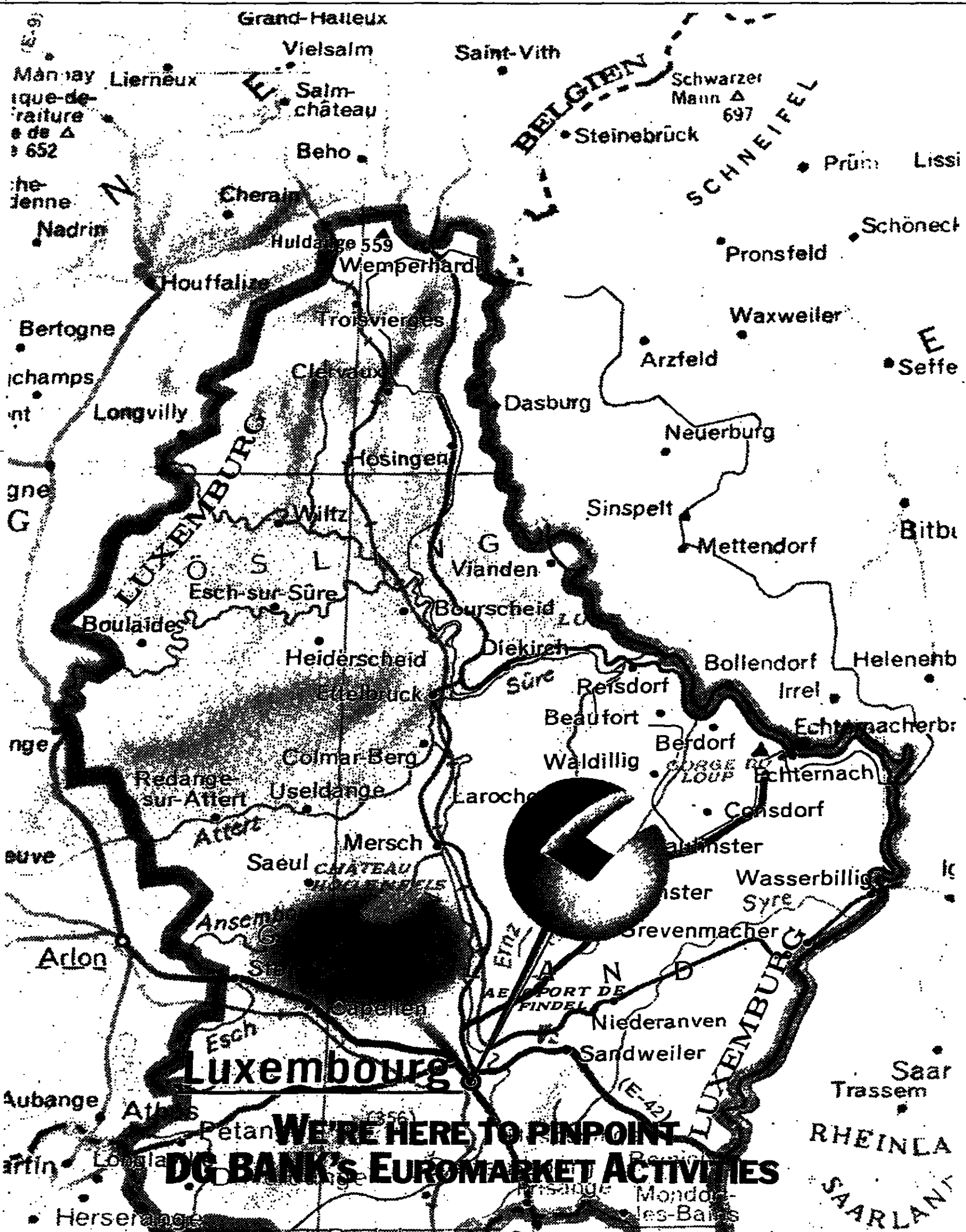
An unusual feature of the Luxembourg exchange is the listing and trading of investment-fund certificates. At the end of 1977, there were 73 funds listed on the exchange.

Investment funds in general have had a roller coaster history in the

Grand Duchy since the holding-company law was widened at the beginning of the 1960s to include the management companies of investment funds. The funds grew from 1965 to a peak in 1972, and have declined steadily since the IOS scandal. In 1972, 95 Luxembourg funds had assets of 112 billion francs (\$3.5 billion). This compares with 24 funds and assets of 22.6 billion francs (\$17 million) in 1967, the first year for which figures are available.

By the end of 1977, the number of funds based in Luxembourg had dwindled to 82, with assets of \$3.7 billion francs (\$2.66 billion). There has been a net decline in certificate transactions in the period as well. Whereas in 1971, the funds recorded net sales of 2.5 billion francs (\$79 million), net placement in 1977 was a negative 277 million francs (\$8.8 million).

Since 1972, all investment funds, including those based outside the country which offers certificates for sale in Luxembourg, are required to report to the Banking Commission. The Commissariat's latest report lists 24 foreign funds active in Luxembourg.



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# Banking Supervision Is Pragmatic, Flexible—and Tough...

**LUXEMBOURG (IHT)**—One of the most stringent controls on banks in Luxembourg is often overlooked. That is the difficulty of getting in.

The requirements on paper, as so often with bank supervision in the

Grand Duchy, are just the beginning. Still, the requirement of 250 million Luxembourg francs (\$7.9 million) for initial capital (60 percent of which must be paid in) and sponsorship of two Luxembourg banks is already enough to

discourage any amateur attempts. Beyond that, any bank proposing to set up office in Luxembourg needs to sit down and have a long conversation with the banking commissioner about what its intentions are. These conversations in-

clude a relatively comprehensive examination of the background of the bank and the personnel who will be involved in the Luxembourg operation. There is no banking license as such, but (one of those unwritten rules) the commissioner traditionally has the last word in deciding whether the banking institution is given the required commercial license.

"We have never considered allowing 'brass plate' banking," said Pierre Jaans, Luxembourg's banking commissioner. "It's not good for the reputation of the country or the European Economic Community—or good for Luxembourg from the business point of view."

The Grand Duchy wants banks that are serious about doing business, Mr. Jaans said. "We are a bit anxious to keep the list of banks limited to names that are well known."

## Some Rejection

The Commissariat has rejected some applications, but most undesirable ones are headed off before formal application.

"Pragmatic" and "flexible" are the two words most commonly used to describe banking supervision in Luxembourg, both by the supervisors and the supervised. But, both sides are quick to add, this relatively unregulated control does not indicate laxity, and the word "tough" occurs almost as frequently as the other two in discussions of supervision here.

"They do it in a nice way—but they mean business," commented one foreign banker who recently arrived. "If you're a little overdue with the monthly report, the phone will ring and somebody will politely tell you the forms were due two days ago, please get them in."

The philosophy of banking supervision in the Grand Duchy is fairly well articulated in the review of the commissariat's operations, published on its 30th anniversary in 1975: "The commissariat's great responsibilities have without any doubt been gradually adapted to the necessities due to the development of Luxembourg as a financial center to meet the requirements of the protection of national and international savings and to guarantee a harmonious operating of financial markets. The answer to



*'Much of the supervision here consists of informal communication.'*

**—Banking Commissioner Pierre Jaans.**

paratus of the Bundesbank," Jaans said, "but any questions can be answered with figures, so we."

Luxembourg officials (and bankers themselves) proudly call attention to the fact that creditors of Herstatt unit here were reimbursed in full. Domestic creditors of Cologne parent bank, whose collapse due to foreign exchange speculation tested the credibility of the international banking system, can only look on with envy.

The Herstatt collapse has national authorities, parties the Germans, nervous about national activity of the banks. Things have changed quite mentally since then," Mr. Jaans said. "Dealers then weren't so the way the market moves. If members, who often had no foreign exchange experience, were half their dealers." No more, said Jaans, noting that everyone is more sophisticated about foreign exchange trading—including supervisory authorities. "For exchange losses still occur, but ways in proportion to a profit," he said.

## Fast Action

When rumors spread at the end of the year that Dresdner Bank's Luxembourg unit had suffered heavy losses in the Forex market, Mr. Jaans acted fast in cooperation with the German banking authorities in Berlin to check it out.

"You can't ignore rumors," he said. "I felt from the fact that they were unjustified because had been watching foreign exchange positions very closely, examination of Dresdner Bank's books in Frankfurt and Luxembourg showed everything in order."

Mr. Jaans said he normally reports on foreign exchange transactions once a month. The motive banks submit reports on day basis. "Here again, it's much a matter of per contact," he said. "There's an attitude of positive collaboration."

As in the case of squelcher Dresdner Bank rumor, Mr. Jaans has no difficulty in coupe (Continued on next page)

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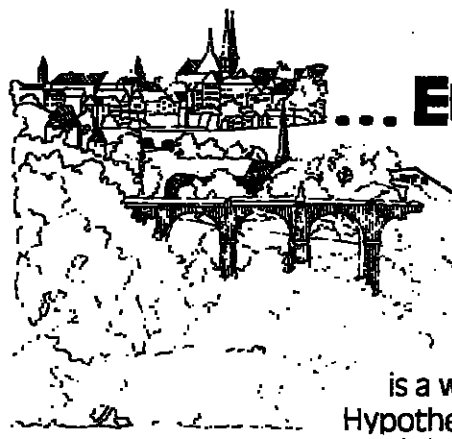
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# Upswing 1977

1977 was another record year for Nikko, with operating income and net income after taxes being ¥48,856 million (US\$184.05 million) and ¥24,211 million (US\$91.21 million) respectively. Net income per share increased to ¥30.03, despite the prolonged economic recession in Japan and abroad.

The financial position of Nikko, a leading investment

strengthened, and operating efficiency improved. As shown in the following statement, stockholders' equity, the most important base for Nikko's future growth, increased 18% over last year to ¥138,294 million (US\$520.98 million). Annual dividend has been increased by ¥1.00 to ¥6.00 per share.

## Statement of Income

	Year ended September 30	
	1977	1976
Yen in Millions		
<b>Revenue</b>		
Commissions	¥91,620	¥80,390
Interest and dividend income	14,943	13,280
Profit on sale of securities	18,983	13,159
Gross revenue	125,546	106,829
<b>Operating Expenses</b>		
Selling, general and administrative expenses	74,071	63,271
Interest expenses	2,619	3,266
Gross operating expenses	76,690	66,537
<b>Operating Income</b>	48,856	40,292
<b>Non-operating income (expenses)</b>	542(253)	477(192)
<b>Income before extraordinary items</b>	49,127	40,577
<b>Extraordinary gains (losses)</b>	734	(5,672)
<b>Net income before income taxes</b>	49,861	34,905
<b>Provisions for income taxes</b>	25,650	17,750
<b>Net Income</b>	24,211	17,155

## Balance Sheet Data

	As of September 30	
	1977	1976
Yen in Millions		
<b>Assets</b>		
<b>Current Assets</b>		
Cash on hand and in banks	¥39,177	¥39,388
Short-term loans	25,025	44,151
Securities owned	61,977	38,418
Securities held as collateral	100,106	74,979
Other current assets	122,532	84,905
Total current assets	348,817	281,841
<b>Fixed Assets</b>	44,272	41,441
<b>Total Assets</b>	393,089	323,282
<b>Liabilities &amp; Stockholders' Equity</b>		
<b>Liabilities</b>		
Current liabilities	232,209	182,867
Long-term liabilities	13,131	12,368
Reserves	9,455	10,877
Total liabilities	254,795	206,112
<b>Stockholders' Equity</b>		
Common stock	40,313	36,648
Capital surplus	10,340	14,005
Earned surplus	63,430	49,362
Other stockholders' equity	24,211	17,155
Total stockholders' equity	138,294	117,170
Total liabilities and stockholders' equity	393,089	323,282

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# '...It Is Done in a Nice Way—But They Mean Business.'

(Continued from preceding page)  
with German supervisory authorities in special instances, given the danger that things are going wrong could go wrong.

## Banking Secrecy

But the Luxembourg banking commissioner is more sensitive about the question of jurisdiction in routine supervision of banking units here. "We have our law and a strong tradition of banking secrecy," he said. Information about Luxembourg banks can be given out in any reasonable aggregate, he said, but not to the extent of individual accounts.

Regarding the much-publicized expressions of concern in Germany about the foreign activities of German banks, Mr. Jaans pointed out that some of the discussion had become confused.

"The general aspect of the parent bank supplying information about its subsidiaries is a German problem that needs to be solved there," Mr. Jaans said. "Some people thought that it would depend on the Luxembourg Banking Commissioner. The discussion was on the wrong rail—I helped get it started in the right direction." And so representatives from the German (parent) banks are carrying on discussions with the Federal Supervisory Office for Credit Institutions (in Berlin), the Finance Ministry and the Bundesbank about achieving greater transparency in the banks' international operations.

## Certain Cooperation

Luxembourg Finance Minister Jacques Poos said the German authorities in Berlin and the Luxembourg Banking Commissioner had agreed to a "certain cooperation" which would allow the German agency to get "global figures" on the German subsidiary's operations, but through the parent bank.

"In my opinion, the fears that are sometimes expressed in German circles—that the risk in Luxembourg is greater than in Germany and that eventually these risky operations will involve the parent bank in problems—are unfounded. In my opinion, the danger doesn't exist," Mr. Poos said.

"The controls in Luxembourg—based not so much as elsewhere on

*'The controls in Luxembourg... are very effective. They have kept us from any great financial scandal.'*



—Finance Minister  
Jacques Poos

legal texts and regulations, but operating on a more cooperative basis—nonetheless are very effective. They have kept us until now from any great financial scandal." This, he said, could not be claimed by neighboring countries.

"You read attacks here and there against Luxembourg, but these

aren't at such a high political level; more likely they are from certain functionaries or administrative organs," the finance minister said. "On the political side, our relationships—both with Belgium and Germany—have greatly improved in recent years, especially this year."

Pierre Werner, who authored the

bill establishing the Banking Commissioner and served for more than 20 years as Luxembourg's finance minister, cited the flexibility of the supervision as its strength. "It has to be very flexible," he said. "Nothing is definite or settled. Over the years, the place has shown its flexibility."

The 1965 law toughening supervision is given as an example of Luxembourg's adaptive ability. The law introduced the two main structural regulations governing Luxembourg today—the solvency and liquidity ratios. The solvency ratio specifies that "own resources" (paid-in capital, equity reserves, general contingency reserves, undistributed profits and, to a certain extent, subordinated loans) should constitute 3 percent of aggregate liabilities (excluding fiduciary accounts and contingent accounts). The liquidity ratio requires current assets to remain at 30 percent of liabilities. (A third ratio, that own resources must cover fixed assets, does not constitute a significant limitation for Eurobanks.)

## Adaptive Ability

The solvency ratio especially accounts for the dizzying capital boosts routinely reported for Luxembourg bank subsidiaries, particularly German, as the parent bank fuels the unit's expansion.

Mr. Jaans said that the current aggregate solvency ratio is 3.8 percent, above the minimum. Moreover, the accounting to determine the ratios is conservative, he said.

"I have no big concerns," said Mr. Jaans when asked about the situation of Luxembourg banks. Pressed, he conceded that the lowering of margins on Eurocredits is "something which is annoying."

"It affects profitability," Mr. Jaans said. This brings a concentration of business, because bigger banks seek to expand their earning capacity by landing the management fee—and then margins go lower. "There's not much room left for risk in the margins," he said.

## Euromarket Growth

Growth of the Euromarket will depend on the domestic monetary policy of the countries whose currencies are involved and the business policy of the banks. Mr. Jaans said—but that did not really concern him. "The less business, the less source of potential trouble," he remarked with irony.

The expansion in Luxembourg has been in line with that of the

Eurocurrency market in general, he noted. He expected, however, that new arrivals would taper off. New banks this year probably would number four or five. Last year they numbered 10.

"There won't be many more German banks coming here," he said, noting that most of the big ones were already in Luxembourg and "the small banks don't really need to come here."

Mr. Jaans added that most of the new banks are coming from Scandinavia and Italy. "There's no much point for British banks to come here," he said, "but the possibility is not entirely excluded."

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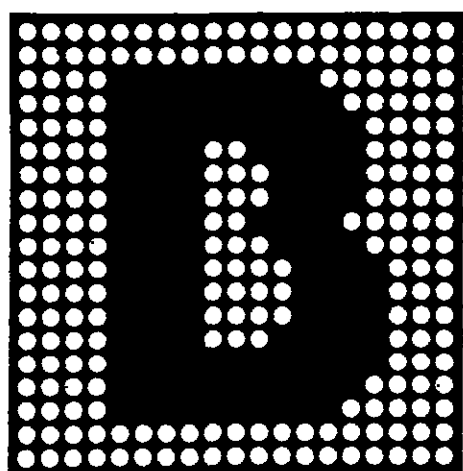
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## London Is Competitive in the Battle for Eurobanking

...The sterling's nose dive in 1975-76 put the City of London on a

more competitive international footing. And Britain began to draw

more and more international banking business, not only from U.S.

banks but also from West German institutions.

'I see no optimistic reason for an American bank wanting to be in

Luxembourg,' said one banker from a major U.S. concern with inter-

ests in both London and Luxembourg.

LONDON (IHT)—Ever since the 1960s, with the inception of the Eurocurrency market, two financial centers in particular have been feverishly vying for the lion's share of the new international banking business. Luxembourg and London have each fought aggressively to win foreign customers. To this day, the battle rages on, although the grounds may be shifting.

Luxembourg was, of course, a prime international venue. Centrally located, bordered by West Germany, France and Belgium, the Grand Duchy afforded easy access to continental bankers. West German and Belgian bankers, especially, found Luxembourg an attractive spot because its generous tax laws and flexible corporate licensing regulations facilitated the establishment of banking subsidiaries. As the Eurocurrency market grew, so did Luxembourg's banking roster.

Smaller U.S. banks, hoping to cash in on the lucrative Eurocurrency market and seeking the accompanying prestige, took a hard and long look at Luxembourg and London as potential locations. Most large U.S. banks already had branches in London. But for smaller banks the congested and expensive City of London posed problems. Finding suitable office space at a reasonable price was a major obstacle—the pound was a very expensive currency back in the 1960s, in contrast to its plunge in 1975-76. Also, the cost of living in London was high in this inflation-prone country. Finally, London offices required a high level of staffing. Regional U.S. banks, therefore, left London to their larger brothers and opted instead for the conveniences of the Grand Duchy of Luxembourg.

### Relatively Cheap

"Luxembourg was years ago a relatively cheap way to get into the Eurodollar market—cheaper than London," says Roger Sherman, senior resident officer in Europe for Continental Bank. Regional U.S. banks found it possible to open operations in Luxembourg, with generally only a

handful of people who handled millions of dollars in foreign exchange, Eurobonds and portfolio management. Fees from currency exchanges, income from loan syndications and sales to customers, security-holding fees and management charges were highly lucrative. Income per employee including office costs was indeed very high in Luxembourg in comparison with international standards.

As the years went by, the importance of the Eurocurrency market grew. It started in 1963 when U.S. authorities imposed the interest equalization tax and thus effectively stopped many foreigners from tapping the New York capital market. This led to the invention of the Eurobond and eventually to a \$500-billion pool of capital held outside the United States. However, as the Eurocurrency market grew, some U.S. banks found that they were outgrowing the small Grand Duchy.

In January, for instance, Wells Fargo Bank announced that it was shifting much of the foreign exchange and money-market activities of its Luxembourg branch to its London offices to cut costs. Wells Fargo, based in San Francisco, established its Luxembourg branch in 1969 as its first major venture in Europe, as well as the first branch of a U.S. bank in the Grand Duchy.

### The Decision

Wells Fargo said it moved "slowly and gradually" towards its decision to consolidate its foreign exchange, deposit trading and communications. "Our objective in consolidating such activities for Europe is to improve the coordinated support of all of Wells Fargo's facilities at the lowest effective cost. The relative cost of employee compensation was a determining factor between Luxembourg and London," said E. Alan Holroyde, senior vice president and head of the European division of Wells Fargo.

The main reason for shrinking Luxembourg operations, U.S. bankers in London explain, is the rising salary costs, which include legislated increases due to indexing, plus merit increases and things like the 13th month's extra pay each year.

"The past cost benefit of Luxembourg has been offset," Mr. Sherman of Continental Bank says. "The biggest problem is the exchange rate."

The dollar's decline against the Luxembourg franc has contributed to bankers' decisions to withdraw from the Grand Duchy. While bank costs in Luxembourg are paid in francs, much of the revenues are in dollars, reflecting banking activity in the Eurodollar market. Last

year, the Luxembourg franc, which is linked with the buoyant deutsche mark in the European joint currency float, or "snake," rose about 9 percent against the dollar. Thus, banks, particularly U.S. banks, in Luxembourg have faced a cost squeeze due to the dollar's extensive drop.

### 'Thin' Market

Currency problems are further compounded by Luxembourg's split-currency market. Like Belgium, the Grand Duchy has a market for foreign exchange for commercial transactions supported by customs documents for items like steel. This market is kept stable within the snake by periodic central bank intervention. However, the second tier—the financial foreign exchange market—gets no such assistance from the monetary authorities. And dealers complain that this market that they are forced to deal in is "thin" and can impose further difficulties in international dealings.

One other problem that banks face in Luxembourg, insiders say, is staffing. The size of the country—with about 350,000 inhabitants, of which about one-quarter are foreigners—means the pool of potential employees is tiny. Therefore, concerns are virtually forced to import people—a costly action that entails the further problems of personal adjustment.

"It's not just costs. It's life style as well" which presents itself as a problem in running a Luxembourg subsidiary, Mr. Sherman of Continental remarked. "It's difficult to get anybody to go live there" and the available supply of local banking talent is limited, he said.

### Nose Dive

Meanwhile, the sterling's nose dive in 1975-76 put the City of London on a more competitive international footing. And Britain began to draw more and more international banking business, not only from U.S. banks but also from West German institutions.

"I see no optimistic reason for an American bank wanting to be in Luxembourg," said one banker from a major U.S. concern with interests in both London and Luxembourg.

"For regional U.S. banks, Luxembourg holds no advantages over London," notes Mr. Sherman of Continental. "I don't think it will ever lose its usefulness to other banks in Belgium and Germany because of its tax advantages. But it isn't a real challenger to most financial centers—namely a place where things get done."

A Wells Fargo spokesman said that its consolidation plans represented "not so much a moving away from Luxembourg but a development in London."

### Another Branch

Bankers explain that London's growing role as an international center is making its activities boom as a financing center—the more banks that open in London, the more new banks that are attracted. "If you're in Europe, you've got to be in London," one banker commented.

Wells Fargo, for example, has had a wholly-owned merchant-banking subsidiary in London since 1972. But it was not until last October that the Californian bank decided to open another branch, devoted to foreign exchange and deposit trading.

Improvements in communications—one item mentioned by Wells Fargo—have meant that banks in the Eurocurrency market can consolidate their operations into one center, doing away with the need for a costly network of branches across Europe. With foreign exchange and deposit trading primarily transacted by telephone and wire contact, Wells Fargo said that its move from Luxembourg should have "little effect" on customer relationships.

London, bankers here argue, does not present the same kind of problems that Luxembourg often does in terms of finding trained staff easily, relocating employees from the United States and offering a lifestyle to which U.S. employees have become accustomed.

Still, bankers with interests in Luxembourg are not despairing. As one banker put it: "European banks are still moving into Luxembourg. But it really depends on the structure of the parent company as to what they want to do. Luxembourg has its weaknesses and its strengths. Still to some—mainly European banks—there is a large tax advantage to be gained from establishing in Luxembourg."

### Deutsche Marks

Partly because of this, the Grand Duchy has specialized in the Eurocurrency market for deutsche marks. The West German authorities further facilitated Luxembourg's involvement in dealing in external deutsche-mark funds by cracking down on capital inflows. They implemented a 25-percent tax on non-resident holdings in mark-denominated bonds, effectively encouraging a capital market in foreign holdings of deutsche marks. Moreover, years of high liquidity and strict Bundesbank controls have seen West German institutions search elsewhere for places to utilize their resources.

"Luxembourg had some particular advantages," Mr. Sherman of Continental said. "It will always have postbox holding companies. But if it weren't for German banks, they wouldn't have been put into that big league."

Until now, Luxembourg has been their first choice, with about 20 West German banks operating in the country. But bankers in London said they perceive something of a shift in that approach. Of late, several large West German banking institutions have decided to set up shop in London.

"Significantly," remarked Mr. Sherman, "German banks are opening branches in London for the first time. That tells you more about the direction for Luxembourg than the development of new 'offshore' centers like the Bahamas."

London experts say that West German banks are overcoming the language problem—one reason

they gave for Luxembourg's strong attraction to German concerns was the common language. In addition, transportation poses less of an inconvenience than it used to, they say. In fact, sometimes a trip from West Germany to Luxembourg can take longer than a flight from Frankfurt to London.

### Keen Demand

The strength of the deutsche mark, particularly over the course of the past turbulent year on the foreign-exchange market, has made a keen demand for DM-denominated paper. Eurobond experts think that demand of this kind will continue to rise in the future, which will probably give Luxembourg a built-in advantage in the race with London for Eurobond business. However, insiders here do not discount the possibility that London, with the help of West German units here, may expand into the Eurodeutsche-mark field as time goes on.

Even if Eurobond trading in the deutsche mark grows, however, London and U.S. bankers say they do not expect to be able to expand their own share of the market in Luxembourg. In fact, Britain's major clearing banks—Barclays, Lloyds, Midland and National Westminster—do not even have subsidiary companies in the Grand Duchy. Any upsurge in Eurodeutsche-mark business is likely to benefit mostly the German banks here. "Poorly efficient U.S. banks have been beaten out by the Germans in the Deutsche-mark boom," one observer bluntly remarked.

One area with which both Luxembourg and London have faced sharp competition recently has been "offshore" banking operations—sometimes consisting of only one clerk to record transactions—are being set up there, mainly to cater to U.S. investors. It, too, has flexible banking rules and affords Americans a much-desired "tax haven."

### The Bahamas

"Luxembourg really isn't in competition with U.S. banks, because they go to the Bahamas. The Bahamas is becoming more of a competitor with London. Loans are being booked now in the Bahamas that might in past years have gone to London," one banker noted.

"Luxembourg," Continental's Mr. Sherman said, "probably offers as many tax advantages as the Bahamas and other places. The question is really one of cost and convenience."

The Bahamas, it was also pointed out, deals mainly in Eurodollars—thus setting itself up in direct competition with the established market in London, as opposed to Luxembourg.

One area in which Luxembourg may have a bright future is portfolio management, experts forecast. Portfolio management entails the handling of private foreign accounts, often with discretionary powers, to invest in securities—generally in an attempt at tax avoidance.

"Luxembourg's secrecy laws and practices—and it may be more practice than law—make it very much like Switzerland, and portfolio management becomes quite easy," one banker explained.

Nonetheless, many London bankers said they expect Luxembourg's role in the market to slowly shrink. "I suspect," said Mr. Sherman of Continental, "some regional U.S. banks will probably continue to leave either for London or to go back home." Part of the reason, he noted, is the likelihood that the dollar will persist in being weak against the deutsche mark and the Luxembourg franc, which will mean continuing high costs for subsidiaries functioning there.

Besides, Mr. Sherman added, "London has too many advantages for Luxembourg to compete on an equal footing. There is very little advantage of going to Luxembourg."

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Bankforderungen	895	Nettogewinn (1976/77)	12
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Kundeneinlagen	243		

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